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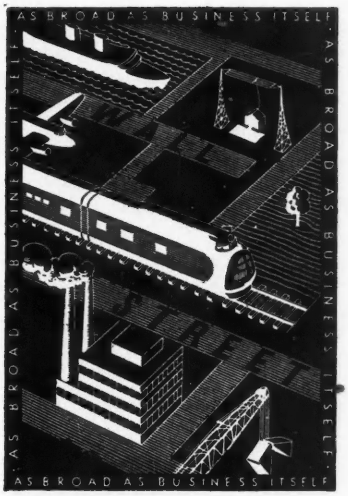
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* LAURENCE STERN, *Managing Editor*




# The Trend of Events

**HELPING THE ENEMY . . .** A saboteur who conspires to aid our enemies is guilty of treason and invites the severest punishment. We do not judge his crime by its effectiveness. His efforts may be abortive or the results may be so small as to have inconsequential bearing upon the success of our war effort. Still, it is treason.

But what are we to think of the practitioners of politics as usual at Washington? They are not conspirators or traitors in the accepted sense. They can be "punished" only via the ballot box at election time. Yet in practical fact their "crime" does our cause far more harm than could have been done to it by all the saboteurs that have been brought to justice by the F B I.

It is imperative that we train the most effective possible army in the shortest possible time. For many months it has been evident to our commanders that this would require lowering the draft age to 18, and the sooner the better. For months it also has been clear that the draft would have to be extended to the navy and the merchant marine. Yet there has been a persistent tendency of Congress and the Administration to defer these and other hard choices "until after the elections." Need it be said that delay in building the finest possible army aids our enemies infinitely more than would the destruction of a power plant here or a machine shop there by crudely illegal sabotage?

Fortunately for the country, politics as usual "until after the election" has backfired in a big way. An aroused public opinion is responsible for the show-down on inflation control which the President has recently precipitated, for the belated introduction of bills to lower the draft age, for the revitalization of the War Production Board and for faster action on the tax program. But this is just a start. Congress and our "Arsenal of Bureaucracy" are still actuated by a slow motion mentality and a pass-the-buck habit that we can endure in peace but can not tolerate in war. This is not the Government's war. It's *our* war. To the great majority of us, the reaction to any question is: Will it help us win? If it will, do it at once. To do otherwise is more of a crime against America than what the law defines as treason. Office-holders who can't see it this way don't belong in a war time Government.

**THE RUBBER REPORT . . .** There is nothing of surprise in the findings and recommendations of the Baruch Committee on the rubber situation and corrective measures. It emphasizes the dangerous aspects of the shortage confronting us—a shortage aggravated by official procrastination and bungling. It calls for full speed on an expanded synthetic rubber program under reorganized administrative machinery headed by a single

fully responsible chief. The principal tire conservation measures recommended are extension of gasoline rationing to the entire country and a 35-mile-per-hour speed limit.

The committee observes that it may be possible to modify the proposed conservation restrictions before the end of next year, if the synthetic program it recommends is successful. There is no reason this publication can see why it should not be successful—provided control of it is given to an able administrator.

Press summaries of the report unintentionally create an impression that the present synthetic rubber program is a chaotic flop. In fairness it should be noted that—despite inexcusable delays and mistakes—it is well started. According to authoritative information placed before the American Chemical Society last week, output of butadiene—key ingredient in "Buna S" rubber—will by the end of next April attain an annual rate sufficient to provide over 500,000 tons of synthetic rubber, 800,000-ton rate by the end of June and approximately 1,000,000-ton rate in November.

To our way of thinking, the importance of the Baruch Committee's report goes far beyond the matter of rubber. Here is a forthright statement by men of unimpeachable standing which castigates past errors "growing out of procrastination, indecisions, conflict of authority, clashes of personalities, lack of understanding." Well, the people responsible for those errors are still in the Government. Some of them are top executives whose responsibilities in administering the war effort extend to every aspect of it. If they can't do an efficient administrative job with rubber, how do we know they can do it with anything else? While investigation of mistakes serves a useful purpose, the basic need is selection of administrators less addicted to "indecisions" and "lack of understanding."

**EXCESS INCOME . . .** In the continuing controversy over "wage stabilization" there is an air of unreality. Presumably the main question involved is the relationship of rising wages to the problem of inflation. This is not a matter of wage rates per hour. It is a matter of total wage—and salary—income of the people on the one hand, reduced supply of consumer goods and services on the other hand.

Total wage and salary income remains in a substantially unchecked upward trend, the War Labor Board to the contrary notwithstanding. The Board's decisions result in some increases, no decreases. So the total rises. If the Board's formula—the income of January, 1941, plus 15 per cent for the rise in the cost of living thereafter—were applied to all employed persons, several billions would thereby be added to annual income payments. There is, of course, no bar to promotion of workers and consequent increase in remuneration. "Sub-standard" wage rates—who knows exactly what they are?—can be raised.

An illuminating index of the pressure of inflation may be had simply by comparing the volume of production with national income payments. Over the past six months the physical total of production increased only by about 6 per cent, total income payments by about 17 per cent.

Even if partially successful, the President's reiterated intention to "stabilize" wages should not be regarded as anything like an adequate answer to the inflation threat. The arithmetic of our inflation problem is very simple. Total 1942 consumer income will be more than $40 billions above the average of the pre-war years 1936-1939, available goods and services will be substantially less than the 1936-1939 average.

Everyone accepts the just and workable principle of heavy excess profits taxes for corporations. Why should not the same tax principle be at least partially applied to the war-increased incomes of individuals? That seems to us to be the only equitable and practical way in which any major portion of the income inflation can be neutralized. The tax program now pending will "mop up" but a relatively moderate portion of the *increased* incomes in the aggregate, but will impose a very jarring load on millions of taxpayers whose incomes have not been increased one iota by the war activity. Indeed, many will pay radically higher taxes on reduced incomes.

**THE BATTLE OF SHIPS . . .** Remembering how unjustified optimism bomeranged so often in the past, both British and American officials these days tend to view our successes with reserve. Thus, the British have done notably little crowing over what looks, from this distance, to have been a right good beating that was given to Rommel in Egypt. And now that ship sinkings by submarines have been greatly reduced, while our output of ships has increased, Secretary of the Navy Knox conspicuously keeps his fingers crossed. That's all right. Boasting will never win a war. At the same time one is justified in noting, with satisfaction, that—though the battle of ships is yet to be won in overwhelming degree—it at least is now going much better for us.

Our August output of merchant ships was 753,600 deadweight tons, moderately under the figure for July. But this is not a reverse when the reasons are examined. Production methods in a number of yards are being rearranged with the objective of reducing construction time per ship. This temporarily checks the rise in total output but will shortly pay big dividends. Indeed, average building time per ship was cut from 108.4 days in July to 83.3 days in August. Illustrating the potentialities, in one of the Kaiser yards a new record of 24 days has recently been set.

In spite of the tight situation in steel and propulsion equipment, we shall in all probability reach a rate of three ships per day by the end of this month; and it is already assured that the President's original goal of 8,000,000 tons this year will be substantially bettered.

**THE MARKET PROSPECT . . .** Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 578. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, September 14, 1942.

# As I See It!

BY CHARLES BENEDICT

## THE SECOND FRONT

It is becoming increasingly clear that the war news is being handled so that there will be no clues in the press for Axis spies. As a consequence the element of surprise has worked greatly to our advantage in recent battles. The successful results are such that no American can complain if the information is withheld until after the event, as has been the case for some time now.

It was interesting to note that while we were clamoring for strong forces to bolster the Allied position in Egypt, troops were already arriving from England in large numbers and other troops accompanied by the necessary material were on their way from the United States. The same was true in the Solomon Islands where the Japanese were edging closer and closer to Port Moresby and Australia.

Uncertainty as to our movements will make it increasingly necessary for Japan and Germany to be prepared everywhere and to expect attack anywhere. It is serving a very good purpose just now when we are preparing for a second front which may be launched at any time.

It stands to reason that the large forces accumulated and which have been supplemented with great frequency in recent months must soon be used in a titanic offensive in Europe, or in Africa, and/or in the Near East. That it is necessary we engage Hitler before he can turn the strength of his forces against the British Isles is self-evident. While the assault on Dieppe showed that it was possible to land large numbers and equipment on the French coast, contrawise it proved that Britain was equally vulnerable. To wait much longer might be disastrous. Already the delays have greatly weakened Russia's position, the effects of which are bound to cost us dearly.

At the same time, the attempt on the part of the Allies to build up an impregnable position has enabled the Nazis to entrench themselves so strongly in Europe that to dislodge them will be a very costly operation. If Stalingrad falls the opening of only one additional front will not be sufficient since we cannot permit Hitler to concentrate against us at any one point. We must force the Nazis to divide their strength so that our men will not have to face the great masses of seasoned troops that would be thrown against them.

It has been claimed that our offensive in the South Seas was for the purpose of preventing a Japanese move on Siberia, which seems somewhat farfetched. It is now becoming clear that the attack on the Solomon Islands was launched for the purpose of protecting our supply lines, and flanking the Japanese concentrations on New Guinea so as to be in a position to weaken the Japanese drive on Port Moresby. For it is imperative that the United Nations hold these (*Please turn to page* 621)

*Harris & Ewing*

**While the assault on Dieppe showed that it was possible to land large numbers on the French coast, contrawise it proved that Britain was equally vulnerable.**

# Market Outlook This Fall

**We think the market averages probably saw their lows for the duration of the war last April. Therefore selective purchases are favored in all periods of reaction. Important near-term movement seems unlikely.**

BY A. T. MILLER

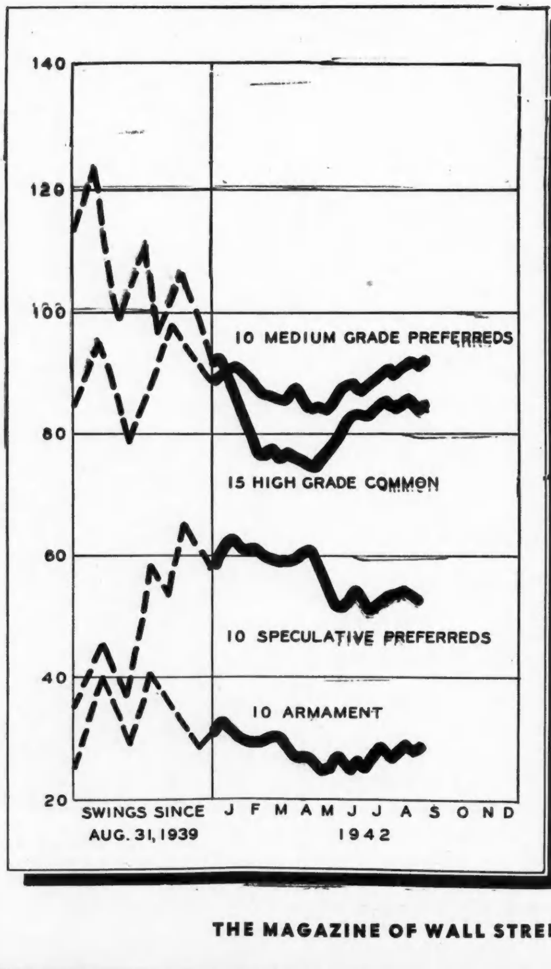
*Summary of the Fortnight: The Dow industrial average made another abortive effort to rise through the July recovery high, then settled back to the mid-way level of the 4-point trading rut that has now been maintained for two months. In an adverse news environment, market's outstanding characteristic continues to be resistance to decline.*

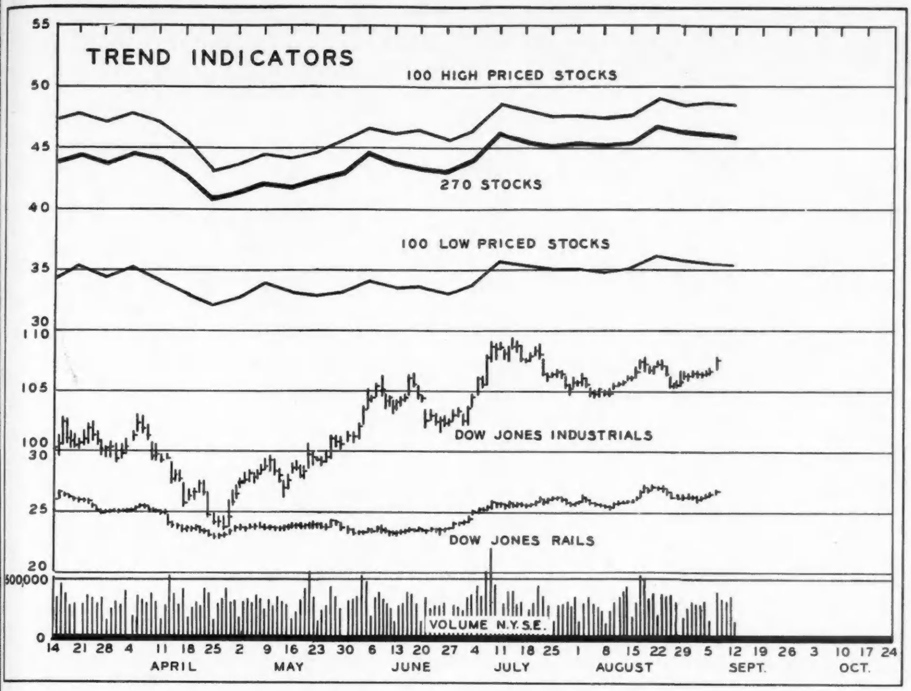
WHETHER the market's current performance is discouraging or encouraging depends mainly upon one's perspective. To short-run speculators it is certainly a dismal affair for the present, and has been for many weeks. If you assume, as do many analysts, that the rise of 16 points from the low of April to the high of mid-July is merely an intermediate rally in a major downtrend market, persistent inability to extend that rally is presumptively bearish. From that point of view, time is running against the market and in due course the April average lows should be tested, if not broken.

But assume—as we are strongly inclined to do—that the major downtrend terminated in April. In that case, one's persepective is radically different, and the present "do nothing" performance can be viewed with patient tolerance at least by investment holders. Bear in mind that the underlying trend really had been downward since the Spring of 1937 or, under Dow theory, since the autumn of 1939—under either technical interpretation, an unusually long bear market. Bear in mind also that this is not only a war setting but the most "total" war that ever confronted us.

From this point of view, it does not seem surprising that after a substantial initial rebound from an over-sold position the market should settle into a protracted trading range. From this point of view, resistance to decline at this season at a level more than 13 points above the bottom in the industrial average is encouraging. From this point of view, the expectancy would be that the market will continue to ignore bad news, that in reactions the averages will not closely approach to April lows and that sooner or later changes for the better in either tangible or psychological factors will induce substantially higher prices. In short, from this point of view, the market is a selective buy in periods of weakness.

We must say frankly that we have no conviction as to the trend of the next few weeks—except that we think it is doubtful that the industrial average will move as much as 5 points up or down from present level around 106. Since the average is some 13 points above the low and less than 3 points under the recovery high, we think purchases can be safely deferred on the *possibility* that trading range reaction may provide more attractive buying levels than anything we have seen for some weeks. Our choice, in periods of weakness, would center mainly on peace-or-war stocks—of which motors and accessories are typical—or strongly established peace stocks. Most stocks for which substantial earning power is a wartime phenomenon are not "behind the 8 ball" by any






accident and their worse-than-average performance is so persistent and so well-founded as to suggest probable continuance. We regard them as a sale on rallies.

Looking a bit further ahead, we are inclined to view the autumn market prospect—also the year-end prospect—with considerable hope. In the war the summer has produced two major crises—or what seemed like major crises to practically all day-to-day observers. The first was Rommel's push deep into Egypt, apparently putting the Allied position in the whole mid-East in grave jeopardy. The market took that in its stride—and it subsequently developed that, in relation to the basic course of the war, the African developments were not as fateful as they had seemed at the time. The second major crisis is now being played out around Stalingrad and in the north Caucasus. It has grave possibilities for our cause, but it will not decide the outcome of the war— and it *may* not affect the duration of the war as greatly as some of the more excitable "experts" assume. The market is also taking this in stride.

Suppose Stalingrad falls and the Russian's Volga life line is lost for the duration. Suppose the Japanese have a try at India or even Siberia. In view of the market's fortitude over many months past, we now doubt very much that any additional war reverses this year can bring a nosedive in prices. We therefore reason that, at worst, the most adverse 1942 war probabilities—probabilities much short of assuring victory for Germany or Japan—were discounted by the market last spring; and that, at best, the course of the war before the year-end may be better than had been expected. So far as the oil-rich Caucasus is concerned, Hitler's hardest job is still ahead of him.

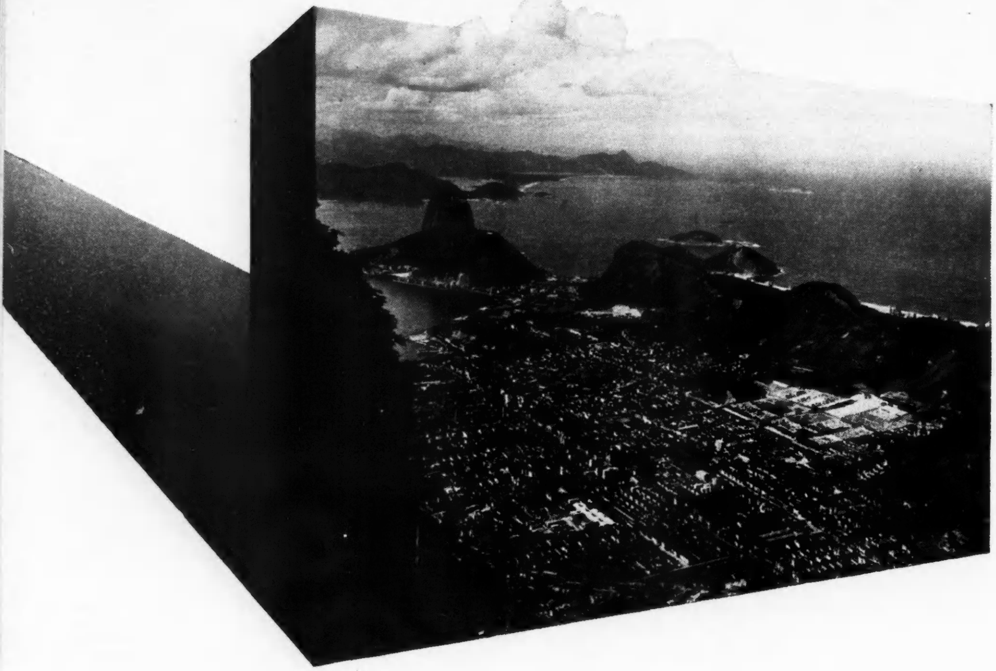
Regardless of the fate of Stalingrad, Germany and Japan will have passed their maximum military strength this year. Before many more weeks have passed, it will be demonstrated that their peak strength was not enough. When the worst for this year is in sight, we have an idea that the market will gain confidence on the conviction that 1943 will be *our* year.

We do not believe that the London and New York markets can much longer maintain divergent trends. For some years, major trend changes in the London market have preceded those in our market. Usually the London market is more "rational" than ours, less given to extravagant extremes of pessimism or optimism. Obviously, confidence of British investors in the over-all war prospect has been persistently mounting. Their market has been in an uptrend for two and a half years. The London industrial share average last week advanced to the highest level since March, 1939.

In the closing months of last year, "tax sales" of common stocks and speculative bonds were in unprecedented volume and constituted a major factor of market weakness. Due to changes in the tax law, no such pressure will be felt this year. As the legislation now stands—and this aspect of it hardly will be changed—deductions for income tax purposes on account of net capital losses will be limited to $1,000. For this and other reasons, tax selling is unlikely to be a major market factor this year. To take note in early autumn of this change is not premature. Investors anticipating heavy tax-sale pressure in December would naturally tend to defer any equity purchases in the meanwhile. Since this will be a relatively minor consideration this year, it will not work against autumn investment demand. That is at least a negatively favorable consideration.

It is now generally believed that the corporate tax provisions written by the Senate Finance Committee will become law. In this respect, we know the worst for this year and at least for many months to come. Whether normal and surtax rates have reached their peak for the duration is by no means certain; but it does seeem more than probable that at least the excess profits tax rate and the 80 per cent tax ceiling represent the maximum, in these respects, for the rest of the war. For quite a few companies that means earnings considerably better than indicated by recent earnings reports.

In wage and farm price control, the beginning of labor mobilization and other "get tough" indications at Washington, last week took us faster toward a genuinely all-out war economy. On balance, we think that is more favorable from a market point of view than otherwise. In making sacrifices, investors at least are going to have some company.—Monday, September 14.



*Triangle*

# Brazil Blazes New Economic Trail

BY V. L. HOROTH

Two years ago the outbreak of war between Brazil and the Axis Powers might have created serious responsibilities for the United Nations. With most of the British military equipment left on the beaches of Dunkirk, a possible German landing on the new so-well publicized "shoulder" of Brazil was well within the realm of reality, despite the existence of British and American navies. Our own armament program then was still in the blueprint stage, and the building of Caribbean bases—the stepping stones needed for the delivery of our help to South America—had just begun. Brazil herself had an active army of only about 100,000, with reserves of 300,000, while to defend a coast line longer than our Atlantic and Pacific Coast combined there were but two battleships and two cruisers, with about a dozen destroyers.

The existence in Brazil of some 1,000,000 first and second generation Germans who had previously resisted assimilation and of some 3,000,000 first and second generation Italians, who, however, were less conspicuous in the pro-Axis plotting, added to the vulnerability of that country. The boldness of the Germans and of the former members of the pro-fascist "integralista" party, banished by President Getulio Vargas in 1938, grew with the Reich's victories. And the boast that the three states where the Germans were the strongest—Rio Grande do Sul, Santa Catarina and Parana—could be taken "by telephone" and turned into a German "gau" (province), was by no means to be scoffed at.

Fortunately by August 22, 1942, when war broke out between Brazil and the Axis Powers, the situation had changed materially. Not only had the output of war material in the United Nations countries by that time definitely exceeded the output of the Axis Powers and Japan combined, but the distance of some 4,250 miles that separates the "shoulder" of Brazil from the North Atlantic ports of the United States is now dotted with airfields and naval bases over which help could be furnished speedily.

Since Brazil's own military position has been also strengthened in the meantime through her own efforts and through lend-lease assistance, it will apparently not be necessary to divert military equipment for the strengthening of the "shoulder." It is significant that President Roosevelt did not mention Brazil in the Labor Day speech as one of the places where war materials would be required. Numerous technical and military missions that have been "shuttling" between this country and Brazil ever since the Havana Conference in the summer of 1940, have seemingly accomplished a good deal in integrating the defenses of the two most populous countries of the Western Hemisphere.

The new naval bases and airfields on the Atlantic "bulge" remain under Brazilian sovereignty. The pres-

ent strength of Brazil's army and the size of her air force are a military secret. It has been estimated that with sufficient armaments available, the country could muster into service as many as 2,000,000 trained men.

In the meanwhile the Brazilians are not taking any chances with the Axis nationals, to whom must now be added some 300,000 Japanese. The German semi-military organizations which used to drill nightly were disbanded long ago. The Axis air-lines which employed many air-force reserve officers were discontinued and the Axis controlled banking institutions were closed or taken over after their financing of fifth column organizations had been uncovered.

Whereas two years ago Brazil was regarded as one of the most vulnerable parts of the Western Hemisphere, today she is one of the most strategically important from the angle of global defense of the United Nations. The "shoulder" of Brazil, jutting into the Atlantic almost 2,000 miles farther east than New York and commanding the narrowest crossing of the Atlantic (the distance from Natal, Brazil, to Dakar, French West Africa, is less than 1,700 miles) has already become an important ferrying point for supplies going to Africa. Some day in the future it may well serve as a point of aggression. The German press has recently been pointing out such a possibility, although this was perhaps intended to justify the new German demand on Vichy to permit the stationing of an air-force in Dakar.

### Strong War Influence

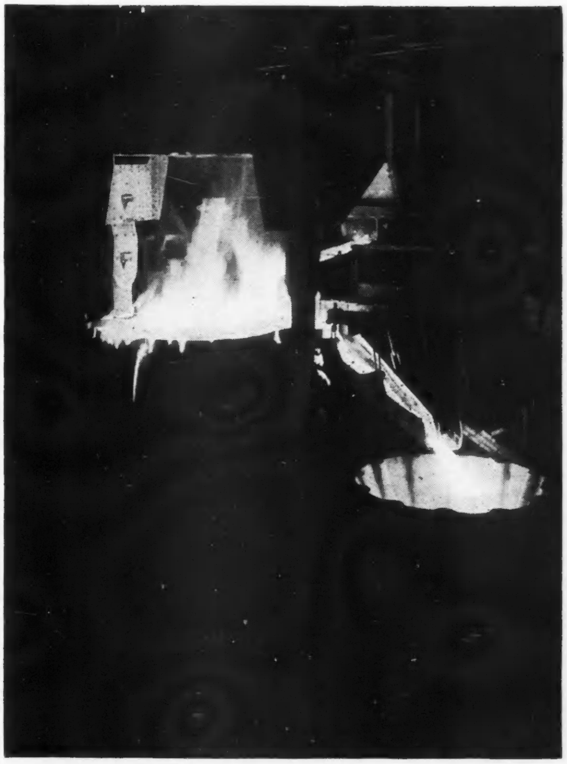
Since Brazil occupies nearly one-half of the South American Continent (she is exceeded in size only by the Soviet Union, China, and Canada) and has almost half of that Continent's population, her entry into the war on the side of the United Nations should have a powerful influence upon the attitude of other South American countries, Argentina in particular. It should strengthen the liberal, anti-Axis element in the latter country as against the present reactionary regime of President Castillo which has been so neutral as to appear sympathetic to the Axis Countries. In contrast with the Argentinians, the Brazilians have not been known to accuse this country of imperialistic designs in recent years. On the contrary they have been perhaps more friendly to us than any other Latin American State. Whether this attitude has been due to the fact that Brazil and ourselves have no competitive exports, or that we have been Brazil's best customers, or that the Brazilians have a subconscious fear of the Argentinians who are more military minded and more aggressive, is indeed hard to tell.

As in the military, so in the economic field, Brazil's entry into the war will probably mean few important changes for the United Nations in the near future. Possibly the production of certain strategic materials may be stepped up, but it is questionable whether this will necessitate the diverting of more shipping tonnage to the runs of Brazil, now that it is so badly needed elsewhere. The hope that more space will be available for coffee on return voyages from Brazil was recently voiced in coffee import circles. Submarine warfare and heavier imports of strategic materials have left about half of the Brazilian coffee quota unshipped. Our present imports of all coffees are at the rate of about 650,000 bags. However, to support coffee deliveries to wholesalers at 65 per cent of normal, as recently ordered, our coffee imports must average around 1,000,000 bags. In the meantime coffee stocks in this country have been rapidly declining, so that it seems no longer a question of whether coffee must be rationed but what the ration will be. On her part, Brazil would undoubtedly welcome also increased deliveries of coal and petroleum products from this country, since fuel shortage is interfering with the industrial activity of the country.

### War Materials Preference

Rather than immediate economic changes, Brazil's entrance into the war has long-range implications. As an active belligerent Brazil is bound to be given preference where new sources of raw materials are to be tapped or where industrial equipment is to be allocated. Brazil is also to benefit from technical skill and industrial management in the carrying out of a number of projects which will eventually increase her contribution to the war effort. A special technical mission of industrial engineers, headed by Morris L. Cooke, former administrator of the Rural Electrification Administration, was appointed early this month by President Roosevelt to help Brazil develop and expand production without large-scale imports of machinery and equipment. The missions' objectives were stated as follows:

1. to increase local production of essential products, *particularly those formerly imported from*



**Current steel and pig iron production, running at about 250,000 tons annually, is expected to rise to nearly 750,000 tons per year by 1944.**

*the United States* in order to save shipping space; 2. to convert local industries to the use of substitute raw materials, replacing supplies ordinarily imported; 3. to maintain and improve transportation facilities; 4. to lay the foundation for a long range strengthening of Brazil's entire industrial economy.

The primary problem facing the Cooke mission in its task of speeding up the Brazilian industrial production is that of fuel, power, and transportation. Apparently one of the approaches will be to increase Brazil's power production or convert its plants to alternative fuels. The increased power production would, among other things, permit the expansion of existing ore reduction plants and thereby release considerable equipment in other United Nations countries, besides saving shipping space.

The lack of fuel and power has been one of the principal deterrents to Brazil's industrialization in the past. Although there are reserves of coal estimated at several billion tons, located principally in the four southernmost states, either their heating quality is too low or the beds are too thin. Moreover, transportation has been expensive. This explains why coal mining has not quite kept up with the industrialization of the country, despite the fact that it nearly trebled in the last decade (see table). As a result, Brazil's dependence upon imported foreign fuel has declined but little.

In an effort to increase her fuel resources, Brazil has been fostering alcohol production for which various native vegetable materials are used. The development of petroleum which is known to exist in the country has been, on the other hand, rather slow, probably because it is under Government control. Under the 1934 mining law, underground wealth, not manifested in a specified time, passed into Government ownership. The exploitation requires a Federal permit which, moreover, can be given only to Brazilian companies.

The shortage of good coking coal and the high transportation costs have also prevented a fuller utilization of Brazil iron ores which are unique because of their iron content and their size. There are at least 6 billion tons of ore running 60 per cent and higher. The current steel and pig iron production is at annual rate of around 250,000 tons. By 1944, when a new iron and steel mill is to be finished at Volta Redonda, the country's capacity should reach about 750,000 tons of steel and pig iron, thus rendering Brazil about 60 per cent self-sufficient in steel products.

While the natural resources of Brazil can be described as tremendous, their accessibility is still another problem. In many respects Brazil resembles Canada. In the Dominion, most of the agricultural and industrial activity is centered in a belt of about 250 miles running along the United States border. Similarly in Brazil, over 80 per cent of population of 47,000,000 and practically all the industries are located in a belt some 200 miles wide running along the country's 4,000 mile coast line.

Communication between various parts of Brazil is therefore chiefly by sea or rivers which explains the seamindedness of the Brazilians in contrast with the Argentinians, and their quick response to the sinking of their ships. Coastal shipping is all-important and its expansion during the past two decades (see table) is in a way a measure of the growing self-sufficiency of Brazil. Yet up to 1939 it was cheaper and faster to transport goods to Belem (Para) in Northeastern Brazil from Europe and the United States than from the southern to the northern coast regions of Brazil.

The interior of Brazil is nevertheless accessible over what is perhaps the greatest natural water system in the world. As a result, the railway system developed only in the mountainous parts of the country and is not any larger than that of New York, New Jersey and Pennsylvania combined, although Brazil is larger by another Texas than the United States. The first trans-Brazil railway line, connecting Sao Paulo with La Paz in Bolivia is expected to be opened in 1944. As to the highways, there are fewer miles improved than in the state of Ohio.

Thus the opening of the great interior of Brazil has really not progressed any further than did the opening of the North American conti- (*Please turn to page* 615)

## Brazil—Economic Indexes—1913 to 1941

| Year | Nat'l. Income (In Millions of Milreis) | Money in Circulation | Com'l Bank Dep'ts | Rcpts. of Fed. Gov't | Value of Paper Milreis in U. S. Cents | Cost of Living in Rio 1928-29 —100 | Foreign Trade Expt. (Millions of Milreis) | Foreign Trade Impt. (Millions of Milreis) | Coastal Trade Millions Milreis | Value of Mineral Expts. Millions Milreis | Trade With U. S. Expt. Millions Milreis | Trade With U. S. Impt. Millions Milreis | Value of Indust. Product. Millions Milreis | Cotton Textile Output Million Milreis | Coffee Produc. Million Bags | Cotton Produc. (000 Bales) | Coal Produc. (000 Tons) | Cement Output (000 Tons) | Population (000,000) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1913 | ...... | 897 | 728 | 654 | 29.3 | 38 | 982 | 1,008 | ..... | 10 | 348 | 174 | ...... | 385 | 14.5 | 418 | ..... | ... | 25.2 |
| 1920 | ...... | 1,847 | 2,220 | 922 | 22.5 | 63 | 1,752 | 2,091 | 1,156c | 51 | ..... | ..... | 1,386d | 532 | 13.1 | 461 | ..... | ... | 30.8 |
| 1925 | ...... | 2,707 | 3,661 | 1,742 | 12.2 | 96 | 4,022 | 3,377 | 2,979 | 46 | 1,811 | 838 | 3,776 | 536 | 14.8 | 723 | 392 | 13 | 34.1 |
| 1929 | 24,000a | 3,395 | 5,925 | 2,201 | 11.8 | 100 | 3,860 | 3,528 | 2,788 | 45 | 1,631 | 1,064 | 4,393 | 478 | 26.3 | 376 | 373 | 96 | 36.2 |
| 1932 | 21,000 | 3,238 | 6,843 | 1,751 | 7.1 | 88 | 3,398 | 1,518 | 2,347 | 42 | 1,173 | 456 | 3,317 | 631 | 25.6 | 505 | 542 | 150 | 39.2 |
| 1935 | 32,000 | 3,612 | 7,766 | 2,723 | 8.3 | 99 | 4,104 | 3,856 | 3,298 | 14 | 1,617 | 898 | 5,764 | 753 | 18.9 | 1,328 | 840 | 366 | 41.6 |
| 1937 | 42,000 | 4,550 | 8,812 | 3,462 | 8.6 | 122 | 5,092 | 5,218 | 4,255 | 95 | 1,851 | 1,229 | 8,274 | 963 | 22.6 | 1,751 | 761 | 572 | 43.2 |
| 1938 | 44,000 | 4,825 | 11,665 | 3,880 | 5.8b | 127 | 5,097 | 5,196 | 4,100 | 82 | 1,749 | 1,258 | 10,414 | 910 | 23.1 | 2,015 | 907 | 618 | 44.1 |
| 1939 | 55,000 | 4,971 | 12,523 | 3,795 | 5.1 | 131 | 5,616 | 4,984 | 4,528 | 126 | 2,030 | 1,672 | 12,106 | 894 | 21.9 | 1,989 | 1,046 | 697 | 45.0 |
| 1940 | 61,000 | 5,185 | 13,714 | 4,036 | 5.0 | 135 | 4,961 | 4,964 | 4,878 | 222 | 2,096 | 2,575 | 13,709 | ... | 20.9 | 2,094 | 1,336 | 745 | 45.9 |
| 1941 | 67,000e | 6,646 | 16,532 | 4,388 | 5.1 | 151 | 6,729 | 5,514 | 5,200e | 487 | 3,832 | 3,325 | ...... | ... | 12.0 | 2,300 | ..... | 768 | 47.0e |

a—1930. b—Free milreis from 1938 on. c—1931—The figures represent mostly national goods moved between various parts of Brazil. d—1919. e—Partly estimated.


Gendreau

# Revolution in Distribution

## What's Ahead for Retailers, Middlemen, Salesmen?

BY WARD GATES

PRODUCTION gets the spotlight in war. It is more dramatic and more centralized than distribution. Nevertheless the far-flung distributive machinery of our economic system is of vital importance in both war and peace. Drastic things are happening to it and there are more to come. The significant consequences of some of these changes will extend into the post-war world.

To the business activity of the country, modern war has two diverse and inescapable implications: A vast increase in all activities related to the war effort; a sharp—but very unequally distributed—decrease in total activity related to production and distribution of goods and services for civilians.

To all enterprises in the field of consumer distribution—whether a great mail order house, a wholesaler or dealer or jobber, or a village hardware store—the two most pertinent questions today are: Can we get the goods that we have heretofore handled? If not, can we survive by a shift to different types of goods?

To manufacturers of consumer goods who are now head-over-heels in war work a big question is whether and how dealer and sales organizations can be held together, at least in essential framework, in order to be available after the war, when there will again be a struggle for the consumer's favor.

Finally, and important to manufacturers as well as to the distributive trades, is the question of Government-forced concentration of non-war production in a reduced number of plants, and the substitution of "Victory" models for long-established trademarks.

Never have the prospects for distribution—retailers, dealers or other middlemen, salesmen—been more mixed and scrambled. Take a brief look at some representative and contrasting examples:

(1) Merchandising firms specializing in relatively plentiful "soft goods," such as clothing, drygoods, foods. They have their problems, including increased personnel turnover, price ceilings, radically higher taxes—but these are common. Their big advantage is that they can get the goods, do business more "as usual" than others can, count on increased sales volume. J. C. Penney and Safeway Stores are examples.

(2) In recent years some 60 per cent of the huge sales volume of Sears, Roebuck has been in "hard goods" against 40 per cent for Montgomery Ward. The latter has the easier job of war-time adjustment. Each, with highly resourceful managements, can adjust operations to available goods far more effectively than can independent and small "general stores." The new lines of Sears would make a list longer than your arm. The Sears management expects a sales drop, in dollars, of about 10 per cent this year from 1941's record-breaking $975 millions; and perhaps a 20 per cent drop next year from

1942 volume. Even so, 1943 volume around $700 million would top any year prior to 1940.

(3) Automobile dealers are decidedly out of luck. It was always a tough game. Some of the more ingenious probably can skin by, handling something other than cars. The big motor manufacturers are doing everything possible to help, but casualties will be heavy. There's not enough profit on the dealer end to give manufacturers any desire to set up their own retail outlets after the war. Dealers in radios, refrigerators, musical instruments, automobile equipment and accessories, etc., are in a similar situation—except that they will not run out of inventory until well into next year and meanwhile many—especially the more aggressive chains—are striving to get into "soft goods" lines. For instance, the Strauss Stores, chain of some 100 outlets for automobile equipment and tires, is actively pushing sale of workmen's clothing and other apparel. Some part of these shifts and diversification of previous "hard goods" merchandising no doubt will stick on after the war. Service stations have a gloomy prospect. Repair and adjustment volume is way down, as are gas sales, in the gas-rationed East; and this situation may become national.

### Contrasting Outlook for Merchants

(4) Countless thousands of roadside merchants—vendors in food, shelter and knick-knacks to automobile tourists and travelers in the good old days—have already gone broke or prudently closed up shop for the duration. This economic tragedy of the Atlantic seaboard states may also spread through the country.

(5) Merchants of "soft goods" in smaller cities which have had a skyrocketing percentage gain in retail demand due to war-plant activity—and those in towns which are shopping and amusement centers for large Army camps—are sitting pretty.

(6) The indispensable hardware stores—a term which covers hundreds of items, most of which aren't hardware at all—will have tough sledding but most can get by. They'll have paints, floor and furniture waxes, insecticides, grass seed and whatnot when the metal goods run out.

(7) We are seeing at least a partial reversal of the marketing trends created over a period of years by common use of automobiles. Since people could conveniently go long distances to shop, trade shifted from the village general store to the county seat or large city stores; and from the nearest small grocer to the big super-market. In the gas-rationed areas, sales gains of stores with volume of $50,000 to $100,000 a year have been only a bit more than one-third of the gains of stores of similar size in non-rationed areas; while sales gains of stores with volume under $10,000 a year have been nearly double those of non-rationed areas.

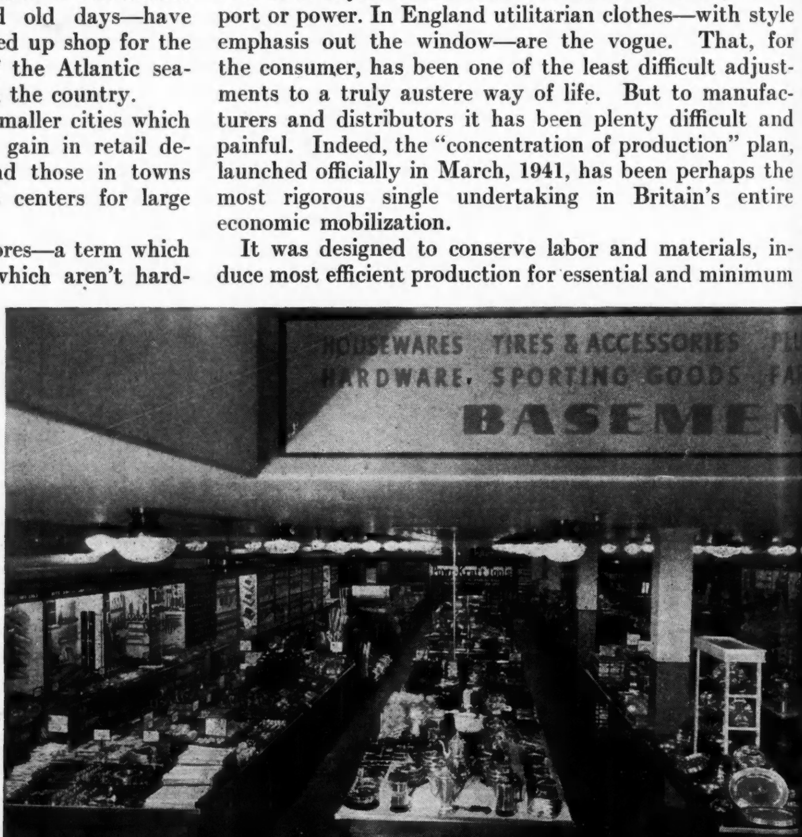
So far we have very briefly sketched only a few of the more striking changes and contrasts in the distributive field, mainly those relating to supply of goods at the manufacturing end or location of the distributor. That is, of course, far from the whole story. Take the matter of transportation.

### Waste in Transportation

Transport Co-ordinator Eastman has thus far talked tough but hasn't acted very tough. This can't last. There is still considerable economic waste in transportation—as judged by war standards—and more of it in due course will be squeezed out. For reasons that were good and sufficient in peace time, a wholesaler or retailer in New York might buy a specified quantity of men's shoes from a manufacturer in Missouri, while at the same time a wholesaler or retailer in Illinois might buy men's shoes from a manufacturer in New York. The consignments cross each other in transit. That's cross-hauling. For standard goods, it can't be justified in war time as transport gets ever tighter. When it is forbidden, every manufacturer of consumer goods is going to lose many retail and wholesale accounts of long standing and gain many new ones. Some of that great reshuffle will stick.

Speaking of standardized goods—there's going to be more of them. That is, fewer styles and models wherever such adjustment can save materials or labor, transport or power. In England utilitarian clothes—with style emphasis out the window—are the vogue. That, for the consumer, has been one of the least difficult adjustments to a truly austere way of life. But to manufacturers and distributors it has been plenty difficult and painful. Indeed, the "concentration of production" plan, launched officially in March, 1941, has been perhaps the most rigorous single undertaking in Britain's entire economic mobilization.

It was designed to conserve labor and materials, induce most efficient production for essential and minimum




**Sellers of hardware items are headed for tough sledding, but most will be able to survive. They'll have paints, floor and furniture waxes, insecticides, grass seeds and what not when the metal goods run out.**

**e modern chain store systems have had their greatest development since the early 1920's. Typical example is the familiar "5-and-10."**

civilian needs and to embrace some 90 or more industries whose material supplies had previously been put under restriction. Where possible, selection of "nucleus" plants was made by negotiation and agreement within the industry, with provision made for "fair" compensation of owners of plants that were closed down. Where agreements could not be reached, the Government imposed its selections. Obviously, choice of plants to remain in operation was the difficult and controversial problem. Although conceded to be necessary, the concentration program was, and is, viewed with considerable misgiving by both capitalists and British labor. It tends to favor the larger firms and thus to foster monopoly; and the "unscrambling" of these combinations after the war will be most difficult. Labor feared permanent loss of jobs in home localities. Owners feared permanent loss of trade position. In long run effect, this program can, and probably will, result in far-reaching reorganization of British industry.

The "concentration" problem in the United States is not really comparable to that in England, being similar only in a general way. Much of England's economy is geared to imports and, prior to lend-lease, maintenance of maximum possible volume of exports of peace time goods was also essential. For these reasons, a given per capita output of war goods in England would necessarily mean a much greater strain on her civilian economy than could be the case in this country.

## Standardization of Goods Has Begun

Nevertheless we are at least moving in the direction of increased standardization of consumer goods and have made a small beginning in concentration of production in the case of stoves, typewriters and bicycles. Farm equipment is next on the list. Dairy machinery, warm air heating furnaces and various other lines are "under study."

Two things about this are worth noting: (1) In the industries already affected non-war production had already been reduced to a small trickle and total number of manufacturers is relatively small; (2) no producers were closed down. Stove makers who ceased making stoves got busy with war production. They have nothing to lose to the few former competitors who will make stoves, in very limited quantity, under a "Victory" trademark. Trade position in the industry is not scrambled in any such way as would make post-war unscrambling difficult. Another thing to note is that, unlike the policy in England, the War Production Board inclines to concentrate production not in the most efficient plants but in a few small plants. It wants the most efficient production for war.

Even though volume will be very substantially reduced, the farm equipment industry will be by far the toughest problem of concentration yet tackled in this country. This is because the equipment is so essential that the minimum volume must be far larger than that of civilian stoves or bicycles or typewriters.

## Limited Concentration of Retail Output

In some cases simplified, standardized consumer products might make a permanent market for themselves, but this is a matter of product rather than trademark. Competitors could readily match the product after the war, and no post-war commercial advantage could conceivably attach to a "Victory" trademark or other "nationalized" trademark.

It is very doubtful that concentration of output here will ever be extended to the big volume consumer goods producers, such as textiles, shoes, foods, cosmetics, beer, motion pictures, etc. That would involve shut-downs of many plants, rather than their war conversion. Further conversion is not needed or feasible. Our war plant capacity will continue to be quite comfortable, as compared with the raw materials and labor bottlenecks. Basic labor supply, augmented most importantly by millions of women not heretofore in the labor force at all, should be able to keep pace with all the production that raw materials supply will permit. Hence as far ahead as can now been seen there does not appear to be justification for concentration within civilian industries whose operations do not hamper the war effort and which can not be converted to war work.

On the whole, the outlook for all engaged in distributive trades in this country is more hopeful than it is in England—with the exception of those who have specialized in consumers' durable goods. In England, total physical volume of retail trade is estimated to have been reduced by more than one-third from the volume of 1940. Small stores have been hardest hit and in some cities as many of 25 per cent of the total have been forced out of business. With diversified inventories, big department stores and co- *(Please turn to page 618)*

# *New Forces Affecting*

# Money—Bank Loans—Investments

BY H. M. TREMAINE

During the fiscal year ended last June 30 the Government spent about $32 billion for war purposes. During the current fiscal year it will spend some $70 billion for war and its total budget will exceed $75 billions.

It seems most improbable that the war will end within the Government's present fiscal year. It may go on for one more year or two more years or X more years. Nobody can know. What we *do* know is that Federal spending will be on the order of $75 billion a year not only this year but for an indefinite number of years.

In short, this war effort of completely unprecedented scope and intensity means drastic changes not only in the world of people and things, but also in the world of money and finance.

We cannot finance such a war more than partly out of money that people and corporations have *earned*. There just isn't enough money to be had out of current incomes or accumulated savings. The rest of the needed money—probably amounting to some $25 billion a year —will have to be "created" by inflation.

Modern monetary inflation for war purposes—resorted to by all belligerent nations—is a far cry from "printing press" inflation. There is neither need nor excuse for anything so crude as issuance of "greenbacks." The greater part of the money that we use consists of bank deposits rather than currency. The great inflation confronting us will be an inflation of "bank money."

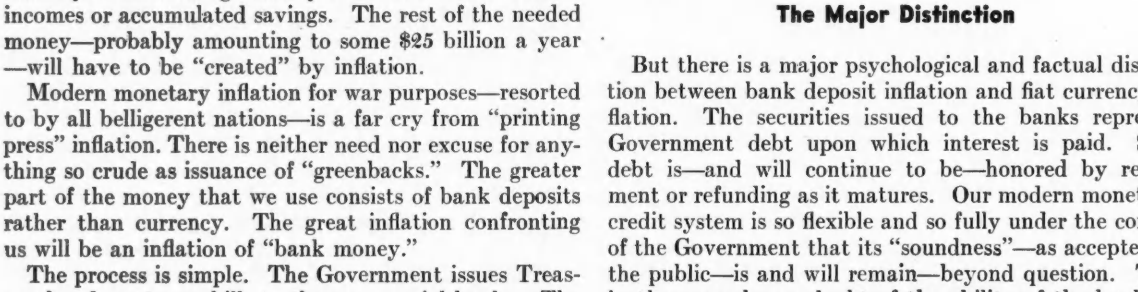
The process is simple. The Government issues Treasury bonds, notes or bills to the commercial banks. The commercial banks enter equivalent deposits on their books to the account of the Government. These Treasury securities become bank assets. The balancing deposits thus created for the Government become bank liabilities. As the Government spends the newly created bank money, a major portion of it is transferred to the bank deposit accounts of millions of individuals, besides further swelling the volume of currency—pocket money —that is in circulation. Economist Harry Scherman has coined a term which very aptly describes this kind of monetary inflation—"Invisible Greenbacks."

Bank deposit inflation—"Invisible Greenbacks"— *could* facilitate a great rise in commodity prices and your cost of living just as surely as would issuance of "printing press" currency—if the spending of the people for goods and services were not sharply restricted by higher taxes, rationing, price ceilings and increased savings out of current incomes.

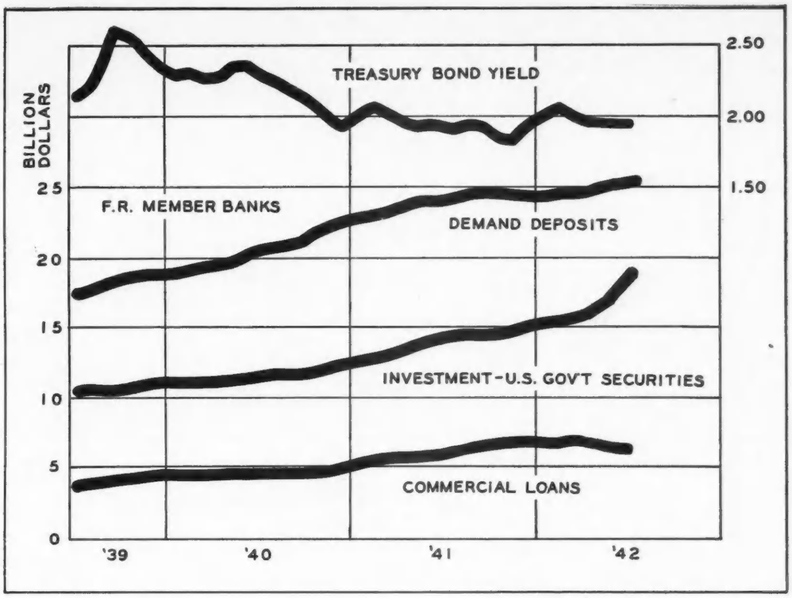
### The Major Distinction

But there is a major psychological and factual distinction between bank deposit inflation and fiat currency inflation. The securities issued to the banks represent Government debt upon which interest is paid. Such debt is—and will continue to be—honored by repayment or refunding as it matures. Our modern monetary-credit system is so flexible and so fully under the control of the Government that its "soundness"—as accepted by the public—is and will remain—beyond question. That is, there can be no doubt of the ability of the banks to issue dollars upon the demand of depositors.

How much the dollars will buy of goods and services is



something else again—depending on the soundness of the Government's over-all war financing and anti-inflation program rather than upon the soundness or solvency of the banking system. The banking system is more liquid today than ever before, and will become more so, because the bulk of its purchases of Treasury securities will carry short maturities which make such investments virtually the equivalent of cash.




Over the pre-war New Deal years 1934-1939, we had what at the time was considered to be a major inflation of bank deposits as the commercial banks more and more became "investment trusts" specializing in Government securities. As compared to the present situation and prospect, that was nothing—just small change. Add in the year 1940, which saw the small beginnings of a defense program, and still it was small change compared to what lies ahead.

After nearly a decade of bank-money inflation, the commercial banks today hold some $24 to $25 billions of Government securities. One year from now it will have at least doubled to $48 or $50 billions. If the war lasts into the summer of 1945, it may approximate $100 billion.

The "ability" of the commercial banks to buy Government securities in these astronomical sums is not remotely to be compared to your ability or mine to buy war bonds. Subject to various Federal control mechanisms, the banks can and will create the means of payment. In theory and principle, the level of their excess reserves is the chief determinant of the volume of bonds they can buy—but the excess reserves are expandible and control of them is a primary function of Federal monetary management as carried out mainly through the Federal Reserve System in close cooperation with the Treasury. The volume of excess reserves can be expanded by reduction of reserve requirements or open market purchases of Treasury securities by the Federal Reserve banks or both. There'll be no difficulty on this score.

### Change in Bank Assets

In former years—when commercial and real estate loans and non-Government securities made up a much more important proportion of total banking assets than now—the ratio of bank capital funds to both deposits and to total loans and investments had a very important relationship to the soundness of the banks. Losses had to be prudently allowed for. If they were larger than could be absorbed out of the bank's own capital funds, it faced insolvency. But former concepts of what constituted an adequate ratio of bank capital funds are no longer applicable.

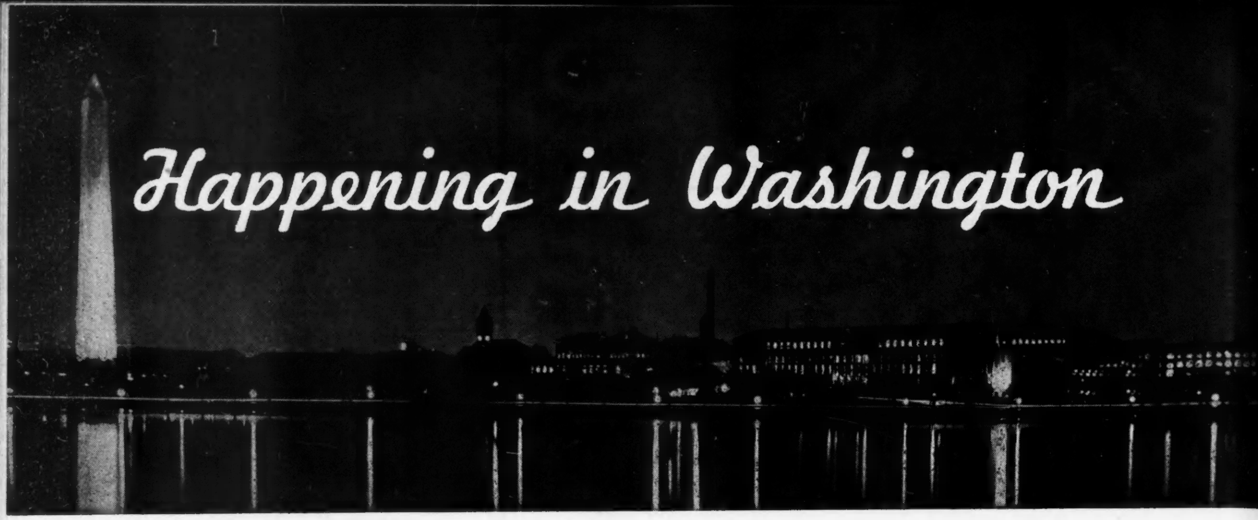
With a much increased ratio of total banking assets represented by the monetized Government debt, the risk factor in banking is proportionately reduced. Hence there will be no danger in the declining trend of bank capital ratios to deposits and to total loans and investments. Capital funds in ratio to holdings of Treasury securities will be virtually beside the point and their ratio to private loans and to non-Government security holdings will remain more than adequate. Ratio of capital funds to deposits on June 30, 1941, was 9.9 per cent. As of last June 30 it was estimated to be down to 9.2 per cent and by June 30, next year, it probably will be reduced to about 7 per cent. At the close of the present fiscal year, ratio of bank capital funds to total loans and investment probably will be around 8.5 per cent, against 12.6 per cent on June 30 and 14.3 per cent on June 30, last year.

### Why Commercial Loans Decline

Commercial loans, as well as total of all loans, have been declining now for some months. Previously they had had a long and very substantial rise as both war and non-war business enterprises borrowed from the banks to finance radically expanded inventories and other increased working capital needs. But non-war inventories stopped expanding some time ago and began to decline. As they were converted into cash, bank borrowers reduced their loans. Since production of many types of civilian goods has terminated, the non-war inventory will continue to decline and will further reduce non-war bank loans. Loan assets are, roughly, three times as remunerative to the banks as are holdings of Government securities.

Numerous war contractors will continue to carry bank loans, but on the whole this borrowing is not as active as it initially was—due to larger and more speedy contract advances by the Government. If there is any increase in total of war contractor bank loans from here on, it is very doubtful that it can do more than balance the further decline in non-war loans. Thus, the figure for total loans—around $18 billion as of last June 30—will remain static. Investments in non- (*Please turn to page* 616)

# Happening in Washington



*Charles Phelps Cushing Photo*

By E. K. T.

**Demands of war** promise to do what economy-minded senators and congressmen have failed to get done. Less essential government agencies are losing their business machines, typewriters, autos, watercoolers, furniture and other equipment to war agencies which can make more vital use of them. This stripping will continue as the war agencies expand, and some alphabetical New Deal agencies of reform will gradually wither.

> ### *Washington Sees:*
>
> War Production Board has been prodded at last into trying to get to the heart of the materials shortage problem.
>
> Shortages that caused production stoppages in war industries exposed the flaws in the priorities system as it was being carried out. Producers got priorities but couldn't get supplies. Even those with relatively high priority ratings ran into all kinds of red tape, bungling and other difficulties in actually getting deliveries.
>
> W P B now feels it has the materials situation sized up, has a good line on available and potential supplies. It is going to push the allocation of materials where they're really needed. Idea now is to balance demands with available supplies, assure those authorized to get materials under the Production Requirements Plan that they will actually have them without unreasonable delay.
>
> Long overdue, it's a step in the right direction, but will take weeks for its effects to be felt in industry. You can hope, but don't expect the new procedure to work miracles. Business men will experience the same official run-arounds, get entangled in the usual red tape and find themselves involved in the continual internal bickering and personality clashes that have helped to bog down the W P B machinery.

**Power companies** are to get the type of constructive cooperation from W P B they had hoped for. This definite conclusion stems from Donald Nelson's action in establishing a power section with a friendly understanding of power production problems. Reform-minded Federal Power Commission has been thumbed out of the war effort.

**Locomotives** have become the 1942 transportation bottleneck. Rails have abandoned all hope of receiving delivery of new locomotives on order. This year's deliveries will fall at least 400 short of quota, and the 1943 outlook is equally bad, probably will be worse. Rail executives are frankly worried more about this than any other element in the cloudy future.

**Subsidy plan** is not dead. With price ceilings being pierced by "squeezes" in supply, government officials are pushing the subsidy as a means of giving support to ceilings. While Congress is still opposed to subsidies, officials hope that threats of price runaways may put pressure on the lawmakers to get behind a plan.

**Tax bill delay** is not the fault of Congress. Real culprits are the Treasury Secretary and his experts. Morgenthau takes recommendations from his subordinates, passes them on to congressional committees without justifying them himself. On the spending tax proposal he went before the Senate finance committee with a parade of 17 specialists, declined to answer questions, referred all queries to the braintrusters. That's the sort of thing Congress has been up against in trying to draft the revenue law.

**The Government** is about to open a new front on the air waves. It will buy time round-the-clock from 14 shortwave stations. Some will go for "good-willing" Latin America, and the rest for beaming war news and propaganda where it will do the most good.

Don't be fooled into thinking the 1942 revenue bill will bring the tops in tax punishment. It is makeshift, piecemeal legislation. Congress will have to try again next year for a model plan tax bill that can produce increased revenue by a mere upward revision of rates. The impact of the 1943 bill on private and corporate income may be even more drastic.

You won't see the President's $25,000 limit on private net incomes this year. A limit may very well be looked for in next year's bill.

Highway speeding is out for the duration. Baruch committee recommends Federal auto speed limit of 35 miles per hour. Enough gas may be available for essential needs, but pleasure driving will be taboo. Owners having more than five tires will be asked to turn in the extras. And they may not be able to get new tires until 1944.

Congressional champions of small business are losing patience with the Small War Plants Corporation. After three months SWPC has accomplished nothing tangible in getting army and navy contracts for small factories or in helping them to switch over to war work. Reasons: (1) army and navy want supplies where they can get them without delay and (2) WPB won't release materials to convert and put plants in production. Move will be made to take SWPC out of WPB and make it independent. Probably will flop, too.

Senate small business committee opens hearings shortly on concentration of civilian production under the English plan. By this system certain firms in a business would be closed. Inventory and customers would go to a smaller number allowed to remain open. These would reimburse closed firms and the government would chip in dollars to boot. A subsidy in disguise, it looks like another effort by Washington to dominate civilian economy. Keep an eye on the hearings and let your congressman hear from you.

Movement toward giving local draft boards power to select manpower for farm and industry work as well as military service is gaining. Using the present machinery would be simpler than setting up another.

If you want information from OPA, route your inquiry through a congressman. Administrator Henderson won't admit it, but he's privately genuflecting to the Capitol Hill boys. Six months ago a lawmaker was lucky to get any answer to queries telephoned or mailed to OPA. Now Henderson has ordered quietly that congressional mail be given right of way over all other correspondence. Leon wants more price control legislation and he's out to woo the Capitol clique.

You're soon to be subjected to a high-pressure educational baptism by the OPA. Special crusaders are now being trained. Crews are to move into the larger cities, establish clinics for merchants, hypnotize chambers of commerce into cooperation. Objective: to convince the public at large it ought to accept and help enforce price control and rationing.

Another OPA army is being raised . With one in the field to check on ceiling price violations by merchants, OPA finds landlords take advantage of delays, exceed rent ceilings until Federal control is actually set up locally. Hence, OPA will speed up appointment of local rent control administrators and staffs.

Raw film shortage is in the making. Production cannot be expanded. Armed services and government agencies are demanding more for training and morale films. These big users, together with newsreels, will get all the film they need, but Hollywood studios will have to stand in line with ration cards to share in what's left. WPB will dictate how many features a studio can make, how much film it can use.

Here's bad news for amateur movie makers: WPB will eliminate all 16 mm. film for amateur purposes to help maintain Hollywood features production.

FBI will not card catalog radio personnel as anti-subversion measure. The G-men feel they have more important work to do than getting dossiers on announcers, engineers, clerical workers and other station employees. FCC, which tried to push the job on them, will attempt to get $200,000 to do it. There's not much chance. Whole thing sounds too much like the Gestapo. Investigation possibly may be extended to foreign language broadcasters only.

National registration of women is on the way. Probably not before January 1, but some time in 1943. Speed up of manpower draft for armed services will bring industrial worker shortage to acute stage early next year. Plan is to gauge potential supply of womanpower which could be called into war plants when and if the need arises.

You're in for relief from headaches caused by government questionnaires. Budget Bureau, now in control of this paperwork, is reviewing all current questionnaires, approving some, dropping others. No government agency can send out a new one without its approval. After January 1, if you get a questionnaire look for the BB seal of approval. If there is none, throw it in the waste paper basket.

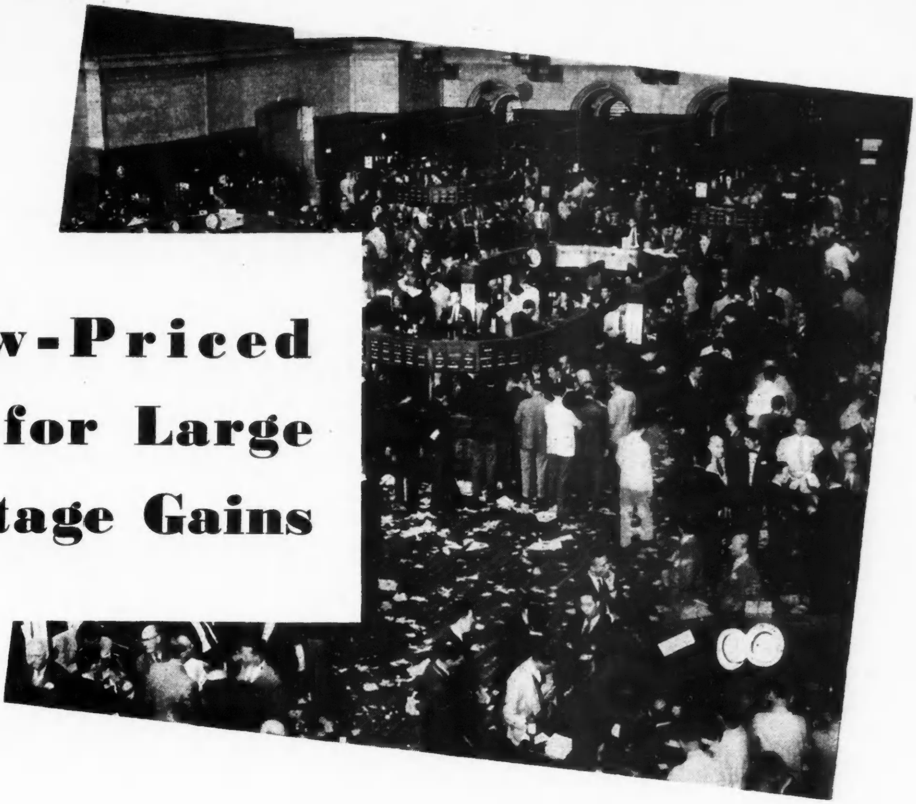
Typical of some poor planning by war agencies is the shortage of insignia for officers of the armed services. Production of metal bars, maple leaves, eagles and other insignia is far behind. Newly-commissioned officers are reporting in civilian clothes to their assigned posts, where they can still pick up the trimmings. Supplies, however, will soon come into city outfitters.

Young men with technical education and training are so scarce that Civil Service Commission talent scouts will visit major engineering schools to interview seniors. Students who qualify will get provisional appointments to government positions. Then when they graduate they go to work—if the armed services don't get them by draft or enlistment.

Manpower Chairman McNutt's move against pirating of labor and the migrating of workers is just a first. His decree, under which workers in copper, lumber and other industries in a "critical labor area" cannot switch or be released from their jobs without government permission, sets up a formula. As labor shortages become acute, look for similar orders binding industries in other areas.

Pirating of skilled workers in war industries has given WPB some worries. Unless McNutt's orders correct the situation, a system of priorities on key craftsmen will be set up to keep essential contract work going.

# 20 Low-Priced Stocks for Large Percentage Gains



### Group I—$1 to $10 Group II—$10 to $20

By The Magazine of Wall Street Staff

## GROUP I

### American Safety Razor Corp.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| *High | 25 | 16 | 36 | 12¾ | 7 | 7½ |
| *Low | 15 | 7 | 15¼ | 5¾ | 4⅜ | 4¾ |

* Based on 3-for-1 split in 1936.

This concern, which was incorporated in 1919, is one f the larger manufacturers of safety razors, blades, and ther shaving accessories. Other products include surical knives and textile blades, as well as various toilet reparations. During recent months, the company's reources and engineering staff have been devoted, in ome degree, to defense activities, it is stated, but no etails are available. Although taxes were substantially rger, profits in the first half of 1942 were equal to $0.59 er share of capital stock, compared with only $0.17 per hare for the same 1941 months. In March, 1942, limitions were placed on production of both razors and lades, effective through October 1. Extension and innsification of the restrictions are probable, but large ilitary needs, as well as normal civilian demand, should prevent a very serious setback to sales progress.

Dividends have been paid in varying amounts since 1922. During 1941, dividends totaled $0.50 per share, while the sole distribution thus far in 1942 was $0.25 per share on May 15. Financial position at the end of 1941 was satisfactory. Based on possibility of further payments before year-end, speculative purchase is suggested. Present price about 7.

### American Stove Co.

| | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|
| *High | 25½ | 17¼ | 13½ | 11 |
| *Low | 21¼ | 11 | 6⅜ | 7½ |

* Based on 5-for-1 split in Oct. 1937.

Normal business of this organization is manufacture of a wide variety of stoves, ranges and heaters for both domestic and commercial utilization. However, production of stoves was discontinued by Government order, as of July 31, 1942, and as a sequel, the factories of the company are being converted to fabrication of war materials. Profits for the first half of 1942 were equal to

$0.75 per share of capital stock, as against $1.03 in the corresponding 1941 months. Because of narrower profit margins on Government work, net income for 1942 is not expected to reach the $2.64 per share reported for 1941. Dividends have been paid in every year since 1935. Payments to date in 1942 amount to $0.90 per share, compared with $1.20 for all of 1941. Strong financial status enables further disbursements this year, and on such basis the stock holds speculative possibilities. Present price about 10.

### Burroughs Adding Machine Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 96 7/8 | 20 7/8 | 35 5/8 | 12 1/2 | 9 3/8 | 8 7/8 |
| Low | 29 | 6 1/8 | 15 | 7 1/4 | 5 3/4 | 6 1/4 |

Company is foremost producer of adding machines, and also makes other types of office equipment. Output has been considerably diversified in recent years. Facilities are being rapidly converted to war production, and after Dec. 31, 1942, operations will be completely devoted to military output. Earnings for the first six months of 1942 equalled $0.32 per share of capital stock, as against $0.45 per share for the first half of 1941. Unfilled orders as of June 30, last, were $9,000,000, compared with $9,800,000 on Dec. 31, 1941.

Because of post-war uncertainties, the company is increasing contingency reserves, and these cover the company's entire investment in all foreign countries except Canada and Latin-America. Nevertheless, this company, upon re-conversion to a peace-time basis, will find an extensive market for its output, as a result of the vast accumulating demand for office equipment of every type. Dividends have been paid without interruption on the capital stock since 1905, with the total to date in 1942 being $0.45 per share as against $0.70 for the full year 1941. Cash and Government bond holdings at the end of 1941 exceeded $14,500,000, these alone being twice current liabilities. Further distributions this year on the capital are, therefore, a distinct possibility, and acquisition for income and price appreciation is in order. Present price about 8.

### Duplan Corporation

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 28 7/8 | 28 3/8 | 17 1/2 | 13 3/4 | 10 3/4 | 10 |
| Low | 10 | 9 1/2 | 10 | 9 1/2 | 6 | 8 |

This company, formerly known as Duplan Silk Corp., is engaged in weaving of silk, rayon, and acetate fabrics, and other related activities. A considerable portion of facilities has been diverted to production of silk and rayon fabrics for the Government. Profits for the fiscal year ended May 31, 1942, were equal to $1.15 per common share, compared with $0.58 per share in the previous annual fiscal period. In view of prospective higher taxes during the present fiscal year, some diminution in net income is probable. Dividends on the common have been paid continuously since 1918, including $0.40 disbursed thus far in 1942. In view of the possibility of further payments before the year-end, speculative purchase is suggested. Present price about 10.

### General Baking Co.

| | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|
| High | 20 7/8 | 19 1/2 | 8 1/4 | 7 1/4 | 4 1/2 |
| Low | 10 1/2 | 5 | 5 3/8 | 3 1/8 | 3 3/8 |

Company is one of the larger bread making organizations, with plants or distributing agencies in over 80 cities in the eastern and middle-western sections of the country. Best known product is "Bond Bread," while company also produces cakes and pies. Profits have pursued an irregular course over the past decade. For the six months ended June 30, 1942, net income was equal to $0.29 per share of common, compared with $0.03 per share for the similar 1941 period. No provision for excess profits taxes was considered necessary in the 1942 interim.

The company has maintained a strong financial position in recent years, and cash alone at the end of 1941 was more than twice current liabilities. Common dividends have been paid uninterruptedly since 1919. Payments on the common thus far in 1942 have amounted to $0.20 per share, compared with $0.45 for the full year 1941. Possibility of further distributions this year justifies speculative purchases of this junior issue. Present price about 4.

### Gillette Safety Razor Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 143 | 20 1/4 | 20 7/8 | 6 3/4 | 4 3/8 | 4 3/8 |
| Low | 80 | 7 5/8 | 8 | 3 | 2 1/8 | 3 |

Gillette is the world's largest manufacturer of safety razors and blades. Restrictions upon normal production are compelling use of substitutes, which involves rearrangement of operating facilities, as a result of which near-term costs are expected to rise. Output of war materials is becoming an increasingly important factor in domestic operations, while the British plant is largely engaged in war production. Margins on such work are smaller than in the case of normal business.

Although increasing competion has resulted in a trend to lower earnings over the past five years, finances have remained strong. Net income for the first half of this year amounted to $0.43 per share on the common, compared with $0.32 per share for the corresponding 1941 months. Disbursements on the common shares, which total but $0.15 so far during 1942, have been made in every year since 1917. Probability of further payments this year affords the common shares fair speculative possibilities. Present price about 4.

### Erie Railroad Co.

| | 1941 | 1942 |
|---|---|---|
| *High | 10 | 8 |
| *Low | 4 1/4 | 4 7/8 |

* Based on securities issued in reorganization.

This carrier, which was reorganized in 1941, operates over 2,200 miles of track, with main routes from New York to Chicago, New York to Buffalo, and Buffalo to Chicago. About 74% of 1941 revenues was derived from hauling of general merchandise, with coal and coke traf-

fic providing slightly over 16%. Revenues have continued to expand during the present year, and for the seven months ended July 31, 1942, were 22% above those for the comparable 1941 period. Net income for the first seven months of the year was equal to $2.53 per share of common and certificates of beneficial interest—this being after various charges and taxes. No exact comparison with the same 1941 period is possible. Revenues for July were the highest for that month in the company's history. All chief revenue classifications are showing improvement, with passenger income running over 50% above 1941.

Financial position of the road was materially strengthened by reorganization. An initial dividend of $0.50 on the common and certificates was paid July 10, 1942, and in view of the company's strong cash position and excellent earnings outlook, another distribution on the junior equities is probable later this year. Speculative acquisition around current levels is therefore warranted. Present price about 8.

### Nash-Kelvinator Corp.

| | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|
| High | 24⅝ | 7⅜ | 5⅝ | 6⅛ |
| Low | 5 | 3¾ | 3 | 3⅜ |

The present corporation represents the 1937 merger of Nash Motors Co. and Kelvinator Corp. Normal output embraces automobiles, electric refrigerators, water coolers, and other related equipment—as well as a model home, complete with heating and refrigerating devices. Conversion of manufacturing facilities to war production has been progressing rapidly, and it is stated that by early 1943, output of military equipment will be more than three times the greatest peacetime record of regular production. War business is represented chiefly by airplane equipment orders. Re-conversion to post-war activities will find available a large accumulated demand for the company's normal manufactures.

Earnings for the nine months ended June 30, 1942, were equal to $0.55 per share, compared with $0.87 in the previous corresponding period. Dividends to date this year amount to $0.37½ per share, as against the same amount for the full year 1941. Possibility of added distributions later this year, as well as above average post-war outlook, renders this stock an attractive speculation. Present price about 6.

### Sparks-Withington Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 73 | 8 | 9½ | 3⅛ | 2 | 3 |
| Low | 13⅛ | ¾ | 1½ | 1½ | 1 | 1¼ |

This concern, formerly active in production of automobile horns, radiator fans, vacuum tanks and other motor car accessories, had converted to a war production basis prior to entrance of the United States into the world conflict. It is understood that as long ago as September, 1941, about 55% of output consisted of war materials for the British as well as equipment for domestic defense purposes. Net income for the year ended June 30, 1942, after Federal taxes and provision for war-time and post-war adjustments, was equal to $0.73 per share of common, as against only $0.08 per share in the preceding fiscal year.

A distribution of $0.25 per share on the common was made on Sept. 15, 1942, this being the first declaration on the junior issue since September, 1931. The improved status of the company suggests the possibility of further disbursements on the common shares at the turn of the year, and on such a basis the stock may be regarded as a promising speculation. Present price about 2½.

### Stewart-Warner Corp.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 77 | 11½ | 21 | 8⅞ | 8¾ | 7 |
| Low | 30 | 2½ | 5½ | 4½ | 4½ | 5⅛ |

Although normal output of automotive accessories, radios and refrigerators has been discontinued, the company is virtually 100% engaged in war operations, output including such items as fuses, lubricating equipment, radio signaling devices, and portable field kitchens, among other articles. Production for 1942, therefore, is expected to surpass last year's total by a substantial margin. Earnings for the first quarter of 1942 amounted to $0.54 per share of capital stock, as against $0.30 per share for the comparable 1941 months. It is a question whether this ratio can be maintained for the full year, particularly in view of narrower profit margins on Government business, as well as the higher prospective corporate taxes.

Balance sheet as of March 31, 1942, disclosed a satisfactory position. The company has pursued a rather conservative dividend policy in recent years, although distributions have been made annually since 1939. The sole 1942 payment to date was $0.25 on June 30, which compares with $0.50 for the full year 1941. In view of the probability of further disbursements on the capital stock before the year-end, as well as of the optimistic long-term prospects, the shares of this company provide attractive speculative potentialities. Present price about 7.

## GROUP II

### Chicago Great Western Railway Co.

| | 1941 | 1942 |
|---|---|---|
| *High | 11¼ | 13⅝ |
| *Low | 3⅞ | 8¾ |

* Preferred stock: issued in reorganization.

The present corporation is successor through reorganization in February, 1941, to Chicago Great Western Railroad Co. The company operates a system of about 1,500 miles of road, with lines extending from Chicago to St. Paul and Minneapolis, and to Kansas City. During 1941, manufactures and miscellaneous traffic furnished about 43% of total revenue tonnage, with mines providing 17% and agriculture 20%. Establishment of a number of new industries along the lines of the road, as well as generally heavier freight movements, con-

tributed toward a rise of over 16% in gross revenues for the seven months ended July 31, 1942. Taxes and other charges were higher, however, and earnings of $2.22 per share of preferred (before contingent charges), were practically the same as in the corresponding 1941 period.

The financial position of the road has been considerably strengthened during the past year. Cash holdings of $2,816,000 on June 30 last were $1,000,000 higher than a year earlier. An initial dividend of 62½ cents on the 5% $50 par preferred is payable on Sept. 30, and applies to accumulations from January 1, 1941. Revenue prospects and likelihood of continuing distributions on the preferred arrears, which amount to $4.37½ per share as of Oct. 1, 1942, give this issue distinct speculative appeal at prevailing quotations. Approximate price, 13.

### General Railway Signal Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 126½ | 49½ | 65⅛ | 19¼ | 16½ | 14¼ |
| Low | 70 | 13¼ | 17 | 9¾ | 9 | 10½ |

Among the industrial companies which have succeeded in registering sharp earnings gains during 1942, despite an appreciably heavier tax burden, General Railway Signal is a conspicuous example. For the six months ended June 30, 1942, profits equalled $1.08 per share, compared with only 14 cents per share during the similar 1941 interim. As the name implies, the company is engaged in production of a wide range of railroad signalling and safety devices, for which demand has materially expanded as a consequence of improving conditions in the railroad industry. Moreover, the company holds substantial orders for munitions and other war equipment. While priorities factors may interfere with normal railroad business, the post-war outlook is definitely encouraging.

Despite higher taxes and costs, profits for the year are expected to be the highest in a decade. With one exception—1939—dividends in some amount have been paid on the common shares since 1924. Payments of 75 cents thus far in 1942 compare with $1 for the full year 1941. Distributions for this year will doubtless equal 1941 dividends. This consideration, coupled with the propitious earnings outlook, lends a strong measure of appeal to the common. Approximate price, 13½.

### Goodyear Tire & Rubber Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 154½ | 47½ | 47⅜ | 24⅞ | 20¾ | 20 |
| Low | 60 | 9¼ | 16⅛ | 12½ | 10 | 10¼ |

Virtually all of the company's output is being utilized in some phase of the war effort. Production includes airplane parts, airships for coastal patrol; tires, wheels and brakes for airplanes, barrage balloons, belts for tank and armored vehicle motors—while manufacture of complete airplanes is presently to be undertaken. Moreover, the first of the Government-financed synthetic rubber plants has begun operations. This plant will have a 15,000-ton annual capacity. A second Government-financed plant, with equal capacity, is also under construction. Major portion of output of these new plants will be used for making tires for the Army and Navy.

Although sales for the first half of 1942 were 17% over those for the similar 1941 period, exceptionally heavy charges for Far Eastern losses, as well as higher taxes, resulted in a drop in net income to an equivalent of $1.24 per common share, compared with $2.23 per share in the six months ended June 30, 1941. The most recent dividend on the common, 25 cents per share, compares with 37½ cents paid in the quarters immediately preceding. The company enjoys a strong financial position, however, and in view of the possibility that the higher rate may subsequently be restored, the common holds speculative appeal. Approximate price, 20.

### National Cash Register Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 148¾ | 23⅜ | 38⅞ | 16¾ | 14⅜ | 17¼ |
| Low | 59 | 5⅛ | 13 | 9¾ | 10 | 11 |

War work is believed now to be completely engrossing company's operations. While the nature of military production has not been divulged, it is known that all tool-making facilities have been devoted to war production for many months. Despite unusually heavy tax deductions, profits for the first six months of 1942 were equal to 96 cents per share of capital stock, compared with 81 cents per share in the corresponding 1941 period.

Reconversion to a peace-time basis will find this company favored with a large potential market for its normal output. Financial position is strong. At current quotations, the common provides an attractive yield on the $1 annual dividend. Approximate price, 17.

### Otis Elevator Co.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 75 | 25¼ | 45¼ | 18⅜ | 17¾ | 15¼ |
| Low | 58⅝ | 10⅛ | 20⅛ | 11⅛ | 9¾ | 11½ |

Although but little information has been published with respect to recent operations of this company, it was officially announced late in April that about 65% of all orders was for direct war work, and that the elevator business which the company handled was practically all for war plants or for ships. Profits for the first half of 1942 (after Federal income and excess profit tax of $3,100,000) were equal to 69 cents per share of common stock, compared with net of 64 cents per share (following Federal taxes of $775,000) for the six months ended June 30, 1941. Large unfilled orders assure continued high operating rates, although margins on war business are less than in the case of normal operations.

The company enjoys an unusually strong financial position. At the end of 1941, cash and Government holdings exceeded $11,000,000, as against current liabilities of only $3,742,000. Dividends on the common have been paid in varying amounts continuously since 1903. Disbursements to date in 1942 total 65 cents, compared with $1 for all of 1941. Strong financial position, with its implications of further payments on the common in the closing months of 1942, provide this stock with appeal. Approximate price, 14.

### Patino Mines & Enterprises Consolidated, Inc.

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 47¾ | 25 | 23⅞ | 10⅜ | 14½ | 20½ |
| Low | 28⅛ | 5⅜ | 8 | 5¼ | 6⅜ | 13⅜ |

This concern is the largest producer of tin in Bolivia, accounting for about one-tenth of world output. Properties are considered the world's largest tin lode-mining deposit. Estimated output for 1942 is 22,000 long tons of tin, for which slightly higher prices will be obtained. The company will benefit from the 10 cent advance in price paid other producers in Bolivia by the Metals Reserve Co., which is retroactive to Jan. 1, 1942. As a sequel to complete stoppage of Far Eastern imports, an ample market exists in the United States for the company's output. Payments to date in 1942 total $2.50 per share, compared with $2.15 for the entire year 1941. On this basis, the stock may be considered an interesting speculation. Approximate price, 19.

### Reading Company

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 147¾ | 62½ | 47 | 17½ | 18½ | 15⅛ |
| Low | 101½ | 23½ | 18⅛ | 9⅞ | 10¼ | 11½ |

Broad expansion in coal mining, steel manufacturing and in general industry in the region served by this carrier is responsible for the excellent revenue and earnings exhibit recorded thus far in 1942. Gross operating revenue for the six months ended June 30, last, was 30% over that for the corresponding months of 1942, while net income advanced to $3.07 per share of common, from $2.20 for the first half of 1941. Reading operates about 1,440 miles of road. The lines extend from Philadelphia, covering extensive portions of the anthracite territory and also reach northward to the New York area. Central Railroad Co. of New Jersey is controlled by Reading.

Between 25% and 30% of revenue is normally obtained from transportation of anthracite, and over the longer future, competition from fuel oil may exercise an adverse effect on income. For the duration, however, this consideration has little application, and continued high operating levels are indicated. Dividends of various amounts have been paid on the common without interruption since 1905. On the prevailing $1 annual basis, the attractive yields warrants purchase for income and price appreciation. Approximate price, 13.

### Schenley Distillers Corp.

| | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|
| High | 47 | 51¾ | 14¾ | 17⅝ | 19⅛ |
| Low | 22 | 22 | 7½ | 8½ | 12¾ |

This company, which was incorporated in 1933, has an annual production of over 55,000,000 gallons of rye and bourbon whiskies, as well as large capacity for the manufacture of gin. Other activities include production of brandy, rum, wines and vermuth. Inasmuch as a considerable proportion of volume consists of straight whiskies, the company will benefit from conversion of facilities to the manufacture of alcohol for war purposes. Contracts have been concluded with the War Department for production of alcohol for powder plants.

Notwithstanding heavy Federal taxes, net profit for the nine months ended May 31, 1942, advanced to $2.98 per common share, from $2.92 in the previous comparable interim. Dividends of 50 cents on the common paid to date in 1942, compare with $1 per share for the full year 1941. Finances are strong, and further distributions on the common are probable before the year-end. This issue comprises a good speculation. Approximate price, 19.

### Twentieth Century-Fox Film Corp.

| | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|
| High | 40⅞ | 13¼ | 9⅝ | 12¼ |
| Low | 18½ | 5 | 5 | 7⅛ |

This concern was organized in 1935 to merge Fox Films Corp. and Twentieth Century Pictures, Inc. Partial distribution is effected through ownership of 42% of the stock of National Theatres Corp., which controls about 400 theatres, mostly in the western part of this country. Company also holds important British interests. Reflecting the constant increase in movie attendance, net profits for 26 weeks to June 27, 1942, rose to 86 cents per share of common, as against only 11 cents per share in the previous similar period. This was accomplished despite a share rise in Federal tax deductions.

Cash holdings at the end of 1941 were $6,587,000, not including "blocked" funds in Great Britain, and were approximately equal to current liabilities. With the advent of cooler weather, movie attendance should be accelerated, with resultant benefit to earnings. Dividends on the common were resumed with a 25 cent payment in March, 1942, following a two-year omission, and further payments are probable before the close of 1941. These shares may be considered an attractive income-price appreciation speculation. Approximate price, 12.

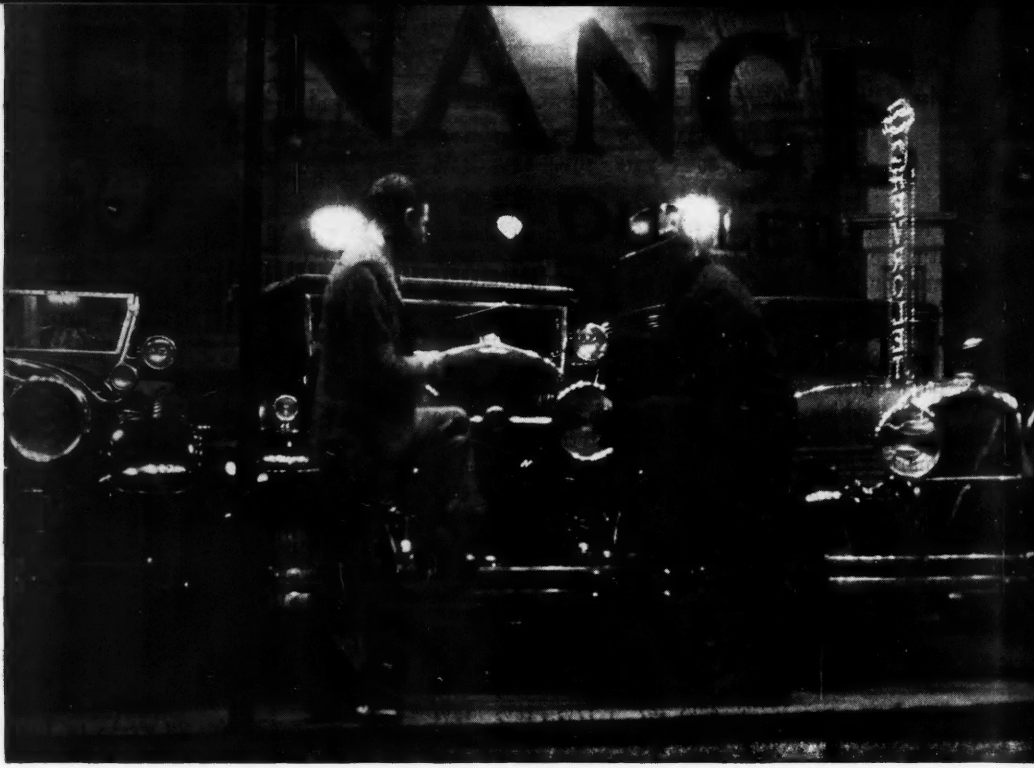
### Zenith Radio Corporation

| | 1929 | 1933 | 1937 | 1940 | 1941 | 1942 |
|---|---|---|---|---|---|---|
| High | 44⅞ | 8½ | 43¾ | 17¾ | 15⅞ | 14⅞ |
| Low | 13 | 3⅝ | 11⅞ | 8⅝ | 8 | 8¾ |

Although civilian production of radio sets was discontinued several months ago, expansion of war production is continuing, and large-scale output of a variety of war-time communications and electronic equipment is in progress. Conversion was accomplished without extensive plant overhauling. Indications are that capacity operations will be maintained throughout the war. Many improvements suggested by the company's engineering staff have been adopted on new and standard apparatus. Post-war outlook is optimistic.

Profits for the fiscal year ended April 30, 1942, were equal to $2.83 per share of capital stock, compared with $2.51 per share in the preceding fiscal year. Sole 1942 dividend was $1 per share on April 30, equalling the annual payments of 1939, 1940 and 1941. Higher taxes may affect earnings progress in the current fiscal year. However, finances are sound and dividends should be continued. Approximate price, 14.

The plush days of the 1930's are over for the finance companies. Restrictions on automobiles have driven them to seek business in new fields.



*Cushing Photo*

# The Finance Companies Enter New Fields

### Lower Profits Should Not Interrupt Long-Time Dividend Records

BY GEORGE W. MATHIS

ONE of the most interesting developments in the field of instalment finance is the manner in which leading organizations in this business are recovering from effects of loss of their most lucrative source of revenue—automotive financial accommodations. Among the more conspicuous of these activities may be mentioned recent entrance into new fields such as acquisition of controlling interests in the insurance, electrical equipment and engineering trades.

Commercial Credit Co., which under normal conditions derives over 60% of revenues from financing of wholesale and retail automobile purchases, announced in July the acquisition of the Kaydon Engineering Corp., of Muskegon, Mich. Purchase of this concern is in conformity with policy of the finance company in devoting a portion of its resources to financing the production of war materials. The merger provides an opportunity for increase in such production, as well as development of additional products and business for commercial use after the war.

Late in August, Commercial Credit Co. further extended its ramifications into new fields with acquisition of more than 95% of the outstanding shares of the Pennsylvania Casualty Co. of Philadelphia. Net premiums of the insurance concern during 1941 approximated $5,000,000.

Paralleling these activities in new fields, Commercial Investment Trust, which reported total resources of nearly $487,000,000 on June 30, 1942, announced in August purchase of the Holtzer-Cabot Electric Co., of Boston, as the preliminary step in an effort to broaden the scope of the company's operations. The latter concern, a former subsidiary of Gamewell Co., is engaged in the manufacture of custom-made electrical products, including telephone and signal equipment and fractional horsepower electrical motors. At the present time, virtually all of the output of the company is being devoted to production of electrical apparatus for war purposes.

### Volume Peak Reached in 1941

The greatest period of development of the sales-financing business occurred during the 1920's, although the all-time volume of business was attained in 1941, with much of this business being attributed to heavy sales of motor cars in anticipation of war-time restrictions. Moreover, sales and financing of consumer durable goods in other than the automotive department also

scored substantial gains in the first quarter of 1942, the heavy demand being actuated by the same considerations of eventually restricted production.

As a sequel to sharply curtailed demand for financial accommodation in connection with instalment sales of various types of consumer goods, receivables of finance companies have been exhibiting progressive shrinkage during recent months. As receivables mature, bank loans are being liquidated, with resultant alteration in the financial status of the big organizations in the field. For example, Commercial Investment Trust reported outstanding bank loans of more than $359,000,000 on Dec. 31, 1941. Yet six months later, notes payable had been cut to less than $194,000,000, or a drop of $165,000,000. Contemporaneously, notes and accounts receivable declined from $586,000,000 to $419,000,000.

Notes payable of Commercial Credit declined from $277,000,000 to $222,000,000 between Dec. 31, 1941, and June 30, 1942, or $55,000,000, while receivables fell from $394,000,000 to $293,000,000, or $101,000,000.

### Sharp Drop in Automotive Financing

In both instances, the greatest recession took place in automotive paper, and in both instances cash holdings declined—in the case of Commercial Investment Trust, cash falling from $66,000,000 at the end of 1941 to $48,000,000 on June 30, 1942, while cash holdings of Commercial Credit dropped from $50,000,000 to $45,000,000 during the comparable period.

Profits of Commercial Credit for the six months ended June 30, 1942, were equal to $1.76 per share of common, compared with $2.23 per share for the corresponding months of 1941. During the similar periods, net income of Commercial Investment Trust amounted to $1.89 and $2.53 per share of common stock, respectively.

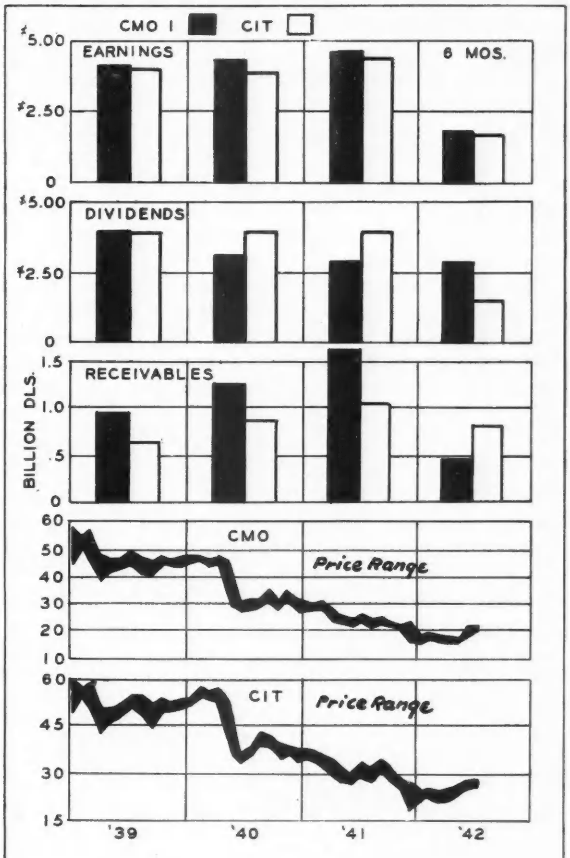
Operations of Associates Investment Co., which under normal conditions is understood to derive more that 90% of revenues from financing of automobile sales, were more profitable in the first half of 1942 than during the comparable 1941 period, net income being equal to $2.27 per common share, as against $2 per share for the first half of 1941. Notes payable declined from $73,000,000 at the end of 1941 to $38,000,000 six months later, while receivables dropped from $104,000,000 to $66,000,000. Cash holdings were also appreciably lower.

In an effort to offset the effects of its lost automotive business, Associates Investment is diversifying its operations by financing defense contracts, commodity and inventory loans, modernization and other loans, as well as by purchase of "accounts receivable." Nevertheless, competition in these fields is keen, and it appears unlikely that profits thus obtained will compensate for the loss of the company's erstwhile lucrative automobile financing business. The company recently acquired a plant, which is engaged in war work, in Fort Wayne, Indiana.

The factoring business (purchase of accounts receivable of textile and other manufacturers) is benefiting from the broad expansion in the textile and associated industries, and further progress should be witnessed over the near future. The outlook for the longer term, however, is obscured by the possibility that clothing rationing may eventually be imposed if the war continues for an indefinite period of time. While factoring is included among the activities of Commercial Credit and Commercial Investment Trust, the principal organization devoting its operations to this branch of the financing business is James Talcott, Inc. Earnings have recorded constant recovery since 1938, and profits for the six months ended June 30, last, were equal to 67 cents per share of common, compared with 64 cents per share for the first half of 1941.

The small loan business has also been affected to a considerable extent by the war-time restrictions on consumers' goods, in order to conserve materials for military utilization. Furthermore, the maximum period of repayment of personal loans which was formerly set at about 20 months has been reduced by successive stages to a maximum of 12 months, established on May 6, 1942. On the other hand, higher personal income taxes, as well as the possibility of "withholding" taxes and compulsory savings, may encourage borrowing by many individuals, with such loans being further stimulated by rising living costs. However, the advantages of higher revenues will in most instances doubtless be offset by increased corporate taxes.

Outstanding among the small loan organizations conducting nation-wide operations are Beneficial Industrial Loan Corp. and Household Finance Corp. Through subsidiaries, the former company operates 435 offices in 315 cities in the United States, as well as 3 offices in Canada. Loans are usually limited to (*Please turn to page* 620)



# Ten Companies With Long Dividend Records

## In These Changing Times, How Secure Are Payments Now?

BY J. C. CLIFFORD

**Acme Steel Co.** has made annual distributions of some amount on the capital stock since 1901. The company was incorporated in Illinois in 1885 as Acme Flexible Clasp Co., and in 1899 consolidated with Quincy Hardware Mfg. Co., as Acme Steel Goods Co. Present title was adopted in 1925. Products include steel hoops, steel bands, hot and cold-rolled steel, strip steel, box straps, floor reinforcements and fasteners for shipping containers. Plants are owned and operated in Chicago and Riverdale, Ill., while the company also maintains its own sales organization selling directly to about 10,000 customers.

Following a sharp decline in 1938, net income recovered in the three ensuing years, profits for 1939, 1940 and 1941, being equal to $5.82, and $6.63 and $9.65 per share, respectively. However, the impact of higher taxes checked subsequent progress, and for the twelve months ended June 30, 1942, net income declined to $7.34 per share from $8.22 per share in the previous comparable period.

Obtaining sufficient supplies of semi-finished steel is the primary problem for the company, according to an official statement, but war demand for the company's steel specialties will be so great that higher priority ratings or allocations will doubtless be made to increase supplies for the company during the final months of the year. If these expectations are realized, gross profits for the year will be substantially in excess of those for 1941, although net profits will be influenced by tax legislation.

Dividends of $2.75 per share have been disbursed to date this year, compared with $5 for the full year 1941. Financial position is strong, and further distributions are indicated for 1942.

**Colgate-Palmolive-Peet Co.** and predecessor organizations possess an unbroken dividend record on common shares dating back to 1895. The present corporation was organized in 1928 as a consolidation of Colgate Co. and The Palmolive-Peet Co. The Colgate Co., was founded in 1806. This organization is one of the three principal factors in the manufacture and sale of a wide range of household, industrial and textile soaps, and of toilet preparations, dentifrices and glycerine. The company operates five manufacturing plants located in various parts of the United States, while sales are also conducted in a great number of foreign countries.

Earnings recovery has accompanied trade expansion during the past year or two, although rather liberal provisions for Federal taxes during the first half of 1942 resulted in net income slightly under that for the similar 1941 period, profits being equal, respectively, to $1.01 and $1.09 per share of common stock.

Over the years, this concern has maintained a sound financial position. However, cash holdings and equivalent on June 30, 1942, were considerably under those shown at the end of 1941, while inventories were materially higher, suggesting that the company has been accumulating supplies in anticipation of higher prices or possible scarcities.

Dividends to date in 1942 amount to but $0.37½ per share on the common, as against $1.50 in 1941 and $1.00 in 1939 and 1940. Cash on June 30, last, was equal to more than $2.50 per share of common. Earnings outlook can be considered satisfactory, and the probability is that further payments on the common will be made before the year-end.

**Consolidated Edison Co. of New York, Inc.,** has made some payment on the common shares since 1893. Company was incorporated in 1884 as Consolidated Gas Co. of New York, and the present title was adopted in 1936. This company functions both as an operating and holding concern. The organization supplies gas, electricity and steam in New York City and in Westchester County. Aggregate steam-electric generating capacity is 2,281,200 kilowatts.' Gas operating properties include 7 plants with 237,710 mcf. daily manufacturing capacity. Steam operating properties include 4 generating stations with aggregate capacity of 4,845,000 lbs. per hour and 379,000 feet of mains and services. About 80% of operating revenues is derived from sale of electricity; 16% from gas, and the balance from steam and miscellaneous sources.

Rates have been constantly reduced, while taxes and operating costs have continued to rise over the past decade or more. As a consequence, earnings and annual distributions on the common shares have declined. Con-

solidated net for the twelve months ended June 30, 1942, was equal to $1.70 per common share, compared with $2.06 per share in the previous similar period.

Inasmuch as the company serves the most populous region in the western hemisphere, high operating revenues are assured. Costs and taxes will exercise a further moderate repressing effect on earnings. In further consideration of the company's strong financial status, indications are that the half-century dividend record will continue unimpaired, although there may be one more adjustment of the dividend.

**Electric Storage Battery Co.** began paying dividends on the common stock in 1901, and in every ensuing year some distribution has been made on this issue. The company is the world's largest manufacturer of electric storage batteries. Best known products are "Exide" and "Willard" batteries. Under normal conditions almost three-fifths of the company's business were derived from the automobile industry.

Although net income before taxes rose during the half-year ended June 30, 1942, the substantial deductions for Federal levies cut net income to $1.03 per share from $1.83 in the corresponding months of 1941.

Operations are now controlled by priorities and other wartime regulations. Production of storage batteries for the armed forces is being accorded precedence, these including equipment for use in military vehicles and tanks, airplanes, submarines and arms factories. High operating levels are thus assured for the duration. Higher taxes and smaller profit margins suggest further restriction of net income in future months. On the other hand, the company is favored by a fairly high excess profits tax exemption.

Cash and Government securities holdings at the end of 1941 were but slightly under total current liabilities. Post-war outlook is highly encouraging. Dividends thus far in 1942 total $1.50 per share, compared with $2.50 for the full year 1941, and the prospects are that further payments will be made at regular intervals in the future.

**Pennsylvania Railroad Co.** possesses what is perhaps the longest record of continuous dividend payments among American corporate entities. Not since 1848 has this great transportation system failed to make some annual distribution on its capital stock. "Pennsy" operates over 10,200 miles of track, exclusive of 571 miles operated by subsidiaries. It is the largest American rail system from the standpoint of tonnage and revenues. Total assets at the end of 1941 were nearly two and one-half billions of dollars.

In addition to services rendered in transportation of troops and military equipment, the road is also engaged in production of direct war equipment, this including machining of certain ordnance parts; casting of cylinders for Liberty marine engines; and machining of rolling mill rolls, to be used in production of ammunition cases, and machining of frames for trimming presses.

Earnings have continued to recover since 1939, and for the six months ended June 30, 1942, were equal to $1.93 per share of capital stock, compared with $1.54 for the corresponding 1941 months. Cash holdings as of June 30, last, were equal to about $5.60 per share of stock. Bond maturities present no financial problem.

Dividends to date in 1942 amount to $1.00 per share, compared with $2.00 in 1941. Total payments for this year will probably equal last year's distributions, with future disbursements maintaining the unbroken record that has prevailed for nearly a century.

**Procter & Gamble Co.,** largest American producer of soaps, glycerines, and of foodstuffs made from vegetable fats, has made distributions on its common shares in varying amounts since 1891. Soap provides about 75% of tonnage sales.

Although net sales for the fiscal year ended June 30, 1942, were 25% higher than in the preceding fiscal year, costs and expenses rose 31%, while Federal taxes were also substantially greater. As a result, net income declined to $3.25 per share of common, from $4.21 per share in the preceding fiscal year. Operations at the company's three English plants are continuing, and damage from enemy action has not been serious. It is understood that the company's Manila plant was not damaged during the Japanese occupation of that city.

Sales volume in soap and foodstuffs divisions is expected to be maintained at satisfactory levels, although price ceilings may exercise a restrictive effect on profit margins. Although excess profits tax exemption is high, further moderate recession in profits is probable. Dividends of $1.50 per common share to date in 1942 compare with $3.00 for the entire year 1941. Disbursements on the common should be continued, although possibly on a lower basis than prevailed in 1941.

## Ten Companies With Long Dividend Records

| Company Name | Avg. Earnings 1936-1939 | Earned 1941 | Latest Interim | Average Dividend 1936-1939 | Paid 1941 | Paid to Date 1942 | Recent Price | Unbroken Div. Record (Years) |
|---|---|---|---|---|---|---|---|---|
| Acme Steel Co. | 4.97 | 9.57 | 7.34(Je-12) | 3.92 | 5.00 | 2.75 | 39 | 42 |
| Colg.-Palmolive-Peet | 1.89 | 3.09 | 1.01(Je-6) | 0.62½ | 1.50 | 0.37½ | 15 | 48 |
| Cons. Edison (N. Y.) | 2.47 | 2.00 | 1.70(Je-12) | 1.94 | 1.80 | 1.20 | 13 | 40 |
| Elec. Storage Battery | 2.06 | 3.93 | 1.03(Je-6) | 2.31 | 2.50 | 1.50 | 31 | 42 |
| Penna. R. R. | 2.07 | 4.41 | 1.93(Je-6) | 1.19 | 2.00 | 1.00 | 22 | 95 |
| Procter & Gamble | 3.29 | 4.21 | 3.26(Je-12) | 2.21 | 3.00 | 1.50 | 48 | 52 |
| Pullman, Inc. | 1.65 | 3.31 | 2.84(Je-6) | 1.66 | 2.50 | 1.50 | 25 | 76 |
| Reynolds (R. J.) "B" | 2.67 | 2.25 | ....... | 2.80 | 2.10 | 1.20 | 23 | 36 |
| Scovill Mfg. Co | 1.48 | 3.48 | ....... | 1.38 | 2.00 | 1.00 | 26 | 87 |
| Westinghouse Air Brake Co | 1.19 | 2.37 | 0.60(Je-6) | 1.94 | 1.75 | 0.75 | 15 | 68 |

**Pullman, Inc.,** chiefly through its controlled subsidiary, The Pullman Co., can boast of a record of continuous annual payments on its common stock extending back to 1867. The parent organization was incorporated in 1927. Subsidiaries are engaged in operation of "Pullman" sleeping, parlor and private cars, as well in manufacture of freight and passenger railways cars, steel forgings, iron castings, car wheels and other rail equipment.

In addition to utilization of facilities for the movement of troops, there has occurred a large demand for sleeper accommodations, consequent upon increasing public travel, much of which is a sequel to the curtailed use of automobiles, resulting from gasoline and tire rationing.

War work comprises a large portion of the holding company's activities. During the first five months of 1942, over 2,500,000 troops were moved by the company's facilities. Moreover, the manufacturing division holds large contracts for production of tanks, mortars, airplane wing assemblies, and other types of war equipment. Freight car production, however, has been considerably curtailed, because of priority factors.

Profits continue to gain, and net income for the six month ended June 30, last, was equal to $2.84 per share of capital stock, as against $1.72 for the first half of 1941. This gain was registered despite appreciably higher Federal taxes, as well as a large deduction for contingency reserves. Dividends to date in 1942 amount to $1.00 per share, compared with $2.50 for the full year 1941. Balance sheet as of June 30, 1942, showed cash and Government securities in the total of $51,829,000, far in excess of total current liabilities of $33,073,000. The outlook for continued distributions on the capital stock, therefore, can be considered optimistic.

**R. J. Reynolds Tobacco Co.,** has made annual disbursements on its common stock since 1907. From 1930 through 1937, dividends were paid at the annual rate of $3.00 per share, but annual payments have declined progressively in subsequent years, amounting to but $2.10 per share in 1941, and to $1.20 thus far in 1942.

Reynolds is one of the outstanding factors in manufacture and distribution of tobacco products. Among its better known products may be mentioned "Camel" cigarettes, while its "Prince Albert" smoking tobacco is widely marketed throughout the country. Manufacturing operations are conducted in four plant groups at Winston-Salem, N. C., while leaf-handling plants are scattered throughout the tobacco growing territories.

The company does not report on an interim basis. Net sales in 1941 were nearly 11% higher than in the preceding year, and indications are that volume will increase further during 1942. Profits in 1941 were equal to $2.25 per share, compared with $2.55 in 1940. Among the factors which have doubtless inspired the more conservative dividend policy on the part of the company may be mentioned substantial increases in leaf tobacco costs, considerable expansion in short-term notes, and expectation of still higher Federal taxes.

Inventories at the 1941 year-end comprised more than 75% of total assets. It appears unlikely, therefore, that new financing will be undertaken for capital purposes in the immediate future, although the company has arranged a $75,000,000 line of "stand-by" credit with twelve banks, for future use if required. Higher costs and taxes will presumably preclude recovery in net income for 1942, but indications are that distributions will be continued on the common stock, with the 1942 total below the payments of recent years, but offering a substantial yield on basis of current prices.

**Scovill Mfg. Co.,** successor corporation to a business founded in 1802, and its predecessor corporation, have made annual distributions on their capital stocks without interruption since 1851. This organization is engaged in manufacture of a wide line of mill products made of brass, bronze, nickel-silver and similar alloys. Principal plants are located in Connecticut, although factories are also operated in Brooklyn, N. Y., Akron, Ohio, and Racine, Wis.

It is estimated that Scovill makes over 300,000 different products, many of which find wide utilization in every-day life of the average individual. Most of the products are sold to other manufacturers or to jobbers and distributors. While no details are available with respect to the scope of war orders, it is known that a considerable portion of operating facilities is being devoted to direct and indirect production of a large line of metal goods for use in armaments and munitions.

Earnings for 1941 were equal to $3.33 per share of capital stock, compared with $2.70 in 1940. No interim earnings for 1942 are available. Dividends to date in 1942 amount to $1.50 per share, as against $2.00 for the full year 1941. The 1941 year-end balance sheet disclosed a sound financial position. Higher taxes and costs may affect 1942 results, but there is every reason to expect that dividends will be continued at rates approximating those recently prevailing.

**Westinghouse Air Brake Co.,** has made distributions of some amount on its capital stock in every year since 1875. This concern is one of the leading makers of safety and signaling devices for steam, electric and street railways, and in collaboration with Bendix Aviation Co., also produces automotive airbrakes.

Main plant of the company is located at Wilmerding, Pa., while the plant of the principal subsidiary, Union Switch & Signal Co., is in Swissvale, Pa. Other smaller plants, owned by subsidiaries, are located in St. Louis, Mo., and Emeryville, Calif.

Operations of this concern are now devoted practically 100% to the war effort, and backlogs were stated in April to be the highest in the history of the company. Orders for war purposes embrace signalling, airbrake, and various types of communications and armament business. Morover, the company has secured substantial contracts for both brake and signalling apparatus from several South American railroads.

Earnings have risen constantly during the past few years, and profits for 1941 totaled $1.91 per share, compared with $1.76 in 1940. The most recent strictly comparable interim statement is that for the three months ended March 31, 1942, which disclosed net of $0.35 per share, with $0.42 per share in the corresponding 1941 quarter.

Dividends thus far in 1942 amount to $0.75 per share. In each of the years 1941 and 1942, $1.75 per share were paid. The company boasts an unusually strong financial position, implying continuation of disbursements on the capital stock on a basis which should make favorable comparison with the payments of recent years.

# What of Textiles Today?

### Dividend Status Good, Though Taxes Will Check Profit Gains

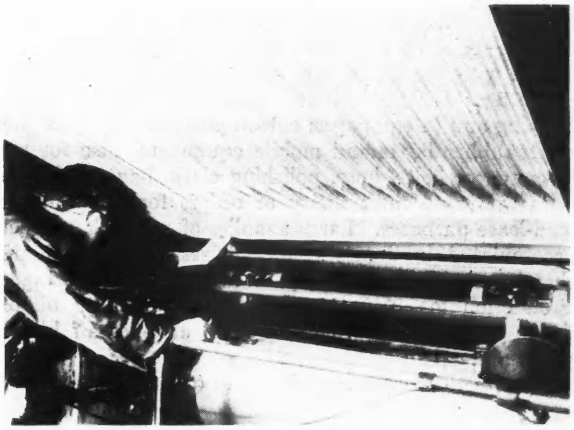
BY JOHN C. HARRINGTON

With increasing civilian demand, as well as substantial volumes of war orders, taxing facilities to the utmost, average operations in virtually all branches of the textile industry will continue at capacity for the remainder of 1942, and well into 1943, according to current indications. For the twelve months ended July 31, 1942, consumption of cotton in the United States aggregated 11,172,000 bales, or about 12% more than during the previous comparable period. During the seven months ended with July, total deliveries of rayon filament yarns to domestic consumers ran nearly 15% over those of the similar 1941 period. However, wool consumption pursued a contradictory course, declining 4% during the first six months of this year. Because of the embargo on silk imports, and the freezing of stocks for military purposes, no recent data on silk consumption are available. However, as a sequel to the tremendous growth in rayon popularity, consumption of natural silk last year was the lowest since 1920.

Few divisions of economic activity have undergone such thoroughgoing rehabilitation during the past two decades as the textile industry. Burdened with an excess of manufacturing facilities, particularly in the North, handicapped by drastic style changes requiring a lesser volume of cloth for garment purposes, and faced with the necessity of complete reorganization of methods and reconstruction of equipment, the textile industry failed to participate to any important degree in the nation-wide prosperity between 1922 and 1929.

It was acknowledged by leaders in the industry that a drastic revamping of all activities had become imperative if their business was to regain the lost confidence of investors. Obsolescence of machinery and distribution methods had wrought havoc with profit margins to such a vast extent that any margin at all became the exception rather than the rule.

This movement was undertaken in the middle 1920's in the northeastern section of the United States, where



a considerable number of cotton and woolen mills had been in operation for several decades, and where resistance to modern trends was particularly evident. Many of the plants that had outlived their usefulness and become archaic in the light of present-day conditions were dismantled. Others succeeded in enlisting financial support in a program of rehabilitation which involved scrapping of machinery no longer adapted to the production of goods that were currently in demand. High-speed semi-automatic looms and other modern equipment were installed and a complete revision of distribution methods was effected.

#### Modernization Undertaken

Productive capacity was brought more into line with modern-day needs and the entire industry re-established on a sounder fundamental basis. Direct selling agencies have likewise been established in the large metropolitan centers, and a considerable portion of the expense involved in disposing of the finished product is thus eliminated.

As a consequence of this drastic reorganization, the textile industry occupies a stronger fundamental position now than in many years, with this position measurably strengthened by the requirements of a wartime economy. It is contended in some quarters, to be sure, that a large potential excess of productive capacity par-

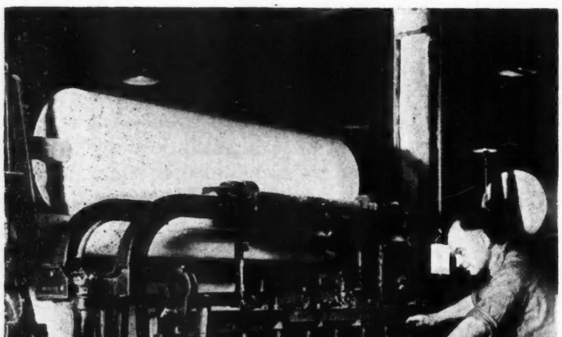
ticularly in the cotton and woolen divisions, may embarrass the industry, upon return to peacetime conditions. However, in view of the cumulative depreciation of equipment resulting from prolonged overtime operations, it may be questioned whether the aggregate efficient producing capacity in those divisions existing at the conclusion of the war will prove burdensome to the industry.

### New Uses for Cotton

Inasmuch as many mills are engaged in more than one type of manufacturing activity, comment with respect to particular companies will follow the subjoined survey of the principal divisions of the textile and allied industries.

Operations in the cotton division (oldest of all the American textiles) are being increasingly devoted to war production, and in this connection, 67% or more of the unfilled orders held by cotton manufacturers connected with the war effort bear priority ratings of A-10 or better. Orders include those for textiles used for clothing and in equipages; cotton parts in jeep cars, aircraft, rubber boats and mobile equipment; also for use in conveyor belts, hose, polishing cloth, bagging fabrics—as well as a multiplicity of orders for medical and lend-lease purposes. Large supplies of cotton have been accumulated in domestic warehouses in recent years, thereby avoiding possibility of raw material shortages. Production for 1942 is estimated at about 12 billion linear yards, which would be one and one-half billion yards more than in 1941.

Despite the temporary character of the war stimulus, the longer term outlook for the cotton industry is regarded as encouraging. In this connection, the Cotton Textile Institute points out that many new uses for cotton have been developed which promise to outlast the war; moreover, the American fibre has supplanted several foreign materials not now obtainable, and some of which may not be in adequate supply for a considerable period after cessation of hostilities. Among the newer types of cotton products which have been developed is a mercerized cotton yarn in a fabric, which, when rubberized, goes into the construction of collapsible rubber boats. Others are special fabrics for bullet-proof gasoline tanks, for cartridge cloth, and for powder bags.



**Among other activities, textile mills are also producing heavy cotton duck for numerous military purposes.**

Meanwhile, price ceilings have been established for a number of cotton products, and additions to this list in future months are probable. Inasmuch as cotton prices continue to rise, while wage trends are also to higher levels, profit margins for the cotton textile manufacturers are certain to diminish in future months.

Despite earlier apprehension as to possible shortages, it is believed in trade quarters that stocks of wool in the United States will be ample for all manufacturing requirements. In reflection of the improved supply situation, the W P B several weeks ago announced the allowance of an additional 25% of manufacturers' quarterly poundage quota of new wool for the remainder of 1942. This action was taken in order to increase the amount of woolen cloth available for civilian purposes.

Nevertheless, precedence is being accorded the large Government orders, and in view of the constant expansion in the size of our armed personnel, with its implications of substantial additional orders, operations in the woolen division will be maintained at capacity levels for the indefinite future.

Price ceilings which have been set for woolen and worsted civilian fabrics have been based on selling prices of the previous season, plus a percentage markup to allow for advances which have occurred in basic costs from the previous season to March, 1942. The net effect of the arrangement (with no limits upon wages) will doubtless be shrinkage of profit margins. This consideration, coupled with higher taxes, will result in general lowering of net profits for 1941.

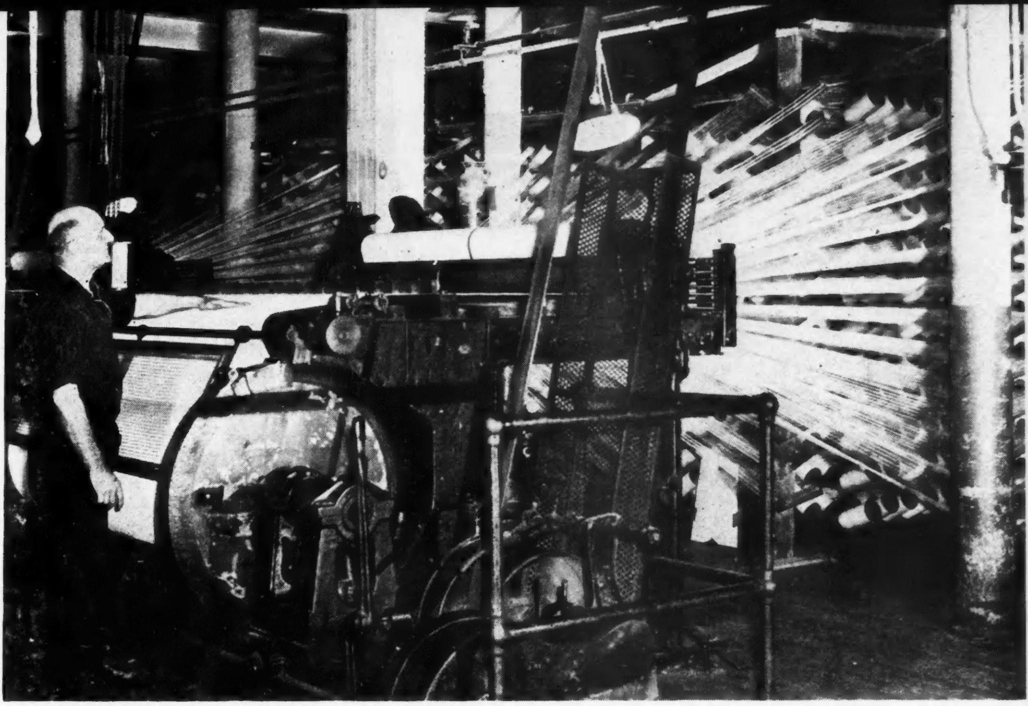
Directly attributable to the tremendous progress achieved by rayon during the past few decades, the competitive position of silk fibre has become progressively more unfavorable. This development has become particularly conspicuous in the dress goods field, while the introduction of "nylon" two years ago has made further inroads into the use of silk. Consumption of silk in 1941 was the lowest in over twenty years, and the outlook for this fibre is indeed unpromising.

The most significant development in the textile industry during the present century is the remarkable rise in the popularity of rayon. No other textile can demonstrate such an accomplishment as this perpendicular growth in rayon consumption.

In the middle of the 18th century, the French naturalist De Raumur prophesied that some day a new textile fibre would be created by man, rather than that grown in cotton fields or upon the backs of sheep—or the product of the silkworm. Yet it was over a century later that Count Chardonnet, in 1884, produced his first synthetic fibre. In 1900, the little factory town of Basancon,

in northern France, the home of Count Chardonnet, produced the first rayon of commercial importance.

It was not until 1912, however, that any important volume of rayon was imported into the United States, when 1,500,000 pounds were brought across the ocean from Europe. This product was still known as "artificial silk," and the name "rayon" was chosen by the Silk Association of America, in the year 1924, and was officially recognized by the American Government in the following year.



**Scenes similar to this are common in all chief textile divisions, where overtime operations are the rule, rather than the exception.**

Domestic production of rayon has risen from 62,693,000 pounds in 1926 to more than 451,000,000 pounds in 1941. Not only in wearing apparel, but for many domestic purposes, rayon is being increasingly utilized.

Although demand for rayon for both military and civilian purposes continues to exceed production, manufacturing facilities have been but slightly enlarged during the past year, as a result of which aggregate output for 1942 may not greatly exceed the 1941 total. Prices have been "frozen" at levels which should, on the average, continue to assure satisfactory profit margins, notwithstanding higher costs. Taxes, of course, will, as in the case of the other textiles, retard profit expansion.

Among the newer textile fibres developed in recent years is "nylon," a du Pont product, which made its debut commercially in 1940. Hosiery produced from this fibre has been favorably received. Moreover, the fibre has also been found adaptable to other types of apparel, as well as for a number of commercial uses, including plastics. Productive capacity for this new member of the textile group is probably in excess of 16,000,000 pounds annually, but practically all of the output is being devoted to military utilization.

Other synthetic yarns include "vinyon," developed by a subsidiary of Union Carbide & Carbon, and marketed by American Viscose Corp., and "aralac," made by National Dairy Products Corp., from casein, a by-product of skim milk. Moreover, the Owens-Corning-Fiberglass Corp., is engaged in manufacture of a line of textile fibres made from glass.

Practically all of the full-fashioned hosiery being turned out at present is being produced from rayon, cotton and from fibre mixtures, as silk and nylon have been eliminated as materials for manufacture. Transition to the newer method of production may restrict earnings progress of makers of better-grade hosiery. However, producers of the lower-priced article are more favorably situated.

Activities in the apparel division during the early months of this year were featured by unusually heavy sales of men's clothing, to a large extent in anticipation of eventual shortages, as well as fears of inferior quality and of higher prices. Limitations on the use of wool, even though these were subsequently modified to a moderate extent, are expected to interfere with normal operations.

Adams-Millis Corp., which manufactures approximately 40 per cent of the country's output of low-priced cotton and rayon hose, reported profits of $1.95 per share of common for the six months ended June 30, 1942, representing considerable improvement over the $1.18 per share for the first half of 1941. This was accomplished despite a substantial increase in Federal tax deductions. Demand for low and medium priced products is expected to hold at satisfactory levels, but price-fixing and higher costs may retard progress later in the year. The company enjoys a strong financial position, and the regular $1 annual dividend can easily be maintained.

American Viscose Corp., the largest American producer of rayon yarn and rayon staple fibre, reveals net earnings of $3.36 per common share for the twelve months ended June 30, 1942. No comparison with the previous similar period is available, but the recent exhibit compares with $3.86 per share shown in the twelve months ended March 31, 1942. Capacity operations are indicated for the near future, and, as manufacturing facilities have been expanded, 1942 output is expected to surpass that of 1941. Dividends of $1.50 per share of common have been paid thus far in 1942, and another disbursement is probable later this year.

American Woolen Co. is the world's largest manufacturer of worsteds, with products being used chiefly in men's and women's clothing. (*Please turn to page* 614)

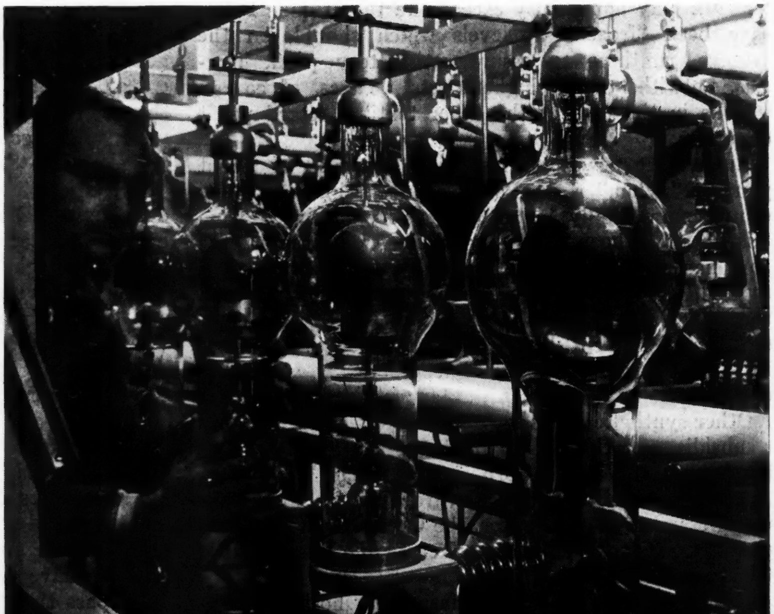
# FOR PROFIT AND INCOME

### The 80% Tax Ceiling

When the proposal in the Senate Finance Committee was first made that all taxation be limited to 80% of the total taxable income, the securities market quickly jumped to the conclusion that this meant there would be some sizeable increases in the net income after taxes of a number of corporations. A few were found, such as Crucible Steel, which had made tax deductions so far above 80% of net income in the first half year as to mean that a deduction of just 80% would increase the net earnings on the common stock by several dollars a share. In many cases, however, the "busy pencils" found that most corporations had exemptions which would mean the total tax would be under 80%. The companies which it is most likely to affect—the airplane manufacturers—did not report for the second quarter or for the half year—and so it could not be figured how they would be affected. United Aircraft made a report, but its total tax deduction fell below 80% of net income. Many of the arms manufacturers did not make reports, either, while a very large number of corporations did not give the net before taxes, so that their position could not be figured. In one extreme case, Bullard Company, the indicated net earnings of less than $1 per share on the taxes deducted in the first six months of 1942 would be changed nearly $3 a share if the 80% limit on taxes becomes a law. Others which would benefit include National Acme, Westinghouse Electric and Clark Equipment.

### "Making" Beauty Is Profitable

The beauty parlor has become an institution since the first World War. At that time, it was part of the men's barber shops and men used to complain when the ladies invaded their sacred domain to get hair bobs and facials. Then the thousands of the establishments which do the hair, face, nails, and other beauty surfaces of the ladies, started to open up. Their number is now legion. A number of corporations have made money for their stockholders in selling to these beauty parlors, but the one outstanding example of direct participation in this business where the securities markets are directly interested is Helena Rubenstein, Inc. This corporation, bearing the name of its reputedly extremely-wealthy founder, has had an excellent earnings record in recent years. The corporation operates a large number of beauty parlors, and also manufactures and widely distributes a number of cosmetics and appliances for improving the looks of the user. There are two classes of stock, the A which is entitled to $1 a share annual cumulative dividends before anything is paid on the common and the common, which is entitled to all earnings which the directors wish to distribute after the $1 per share annually has been paid on the A. The A has received its $1 annually for many years. The common has had some large payments in recent years, including $2.50 a share in 1941 and $2 in 1940. So far in 1942, the



**New device prevents interruption of radio broadcasts due to tube failures. In the foreground are Westinghouse rectifier tubes (which change alternating current to direct current). Behind them are the automatic relays which change tubes without interrupting broadcasts.**

common has had only 50 cents a share but a larger disbursement is expected at the year end. The gross business of Helena Rubenstein, Inc., in the three fiscal years ending September 30, 1941 was $8,300,000—which is a lot of beautifying—and the net was $930,000. In the fiscal year ending September 30, 1941, the net on the A was $8.27 a share, and $4.59 a share on the common. At the end of that fiscal year, the current assets were $2,232,131 and current liabilities $776,737. At present prices for the A, it has a high yield, and it seems to have a strong investment standing. The common, if more than $1 a share total is paid this year, has a very good yield and its speculative outlook is promising.

### Participating Stocks

A considerable number of stocks, possibly as many as 300, have the right to participate in further dividends, after a regular rate that they get in preference to a junior issue. Most of these stocks are preferred stocks or Class A issues. Some interesting participations are shown in the accompanying table. Many others of the participating stocks are little known issues. Many others are far from a point where they can share in any further dividends, or are likely to. Among some of the remote possibilities are A. M. Byers preferred, Consolidated Film Industries preferred, Poor & Co. A and Virginia Carolina Chemical preferred, all four of which are now making progress in getting cleared up on accumulated dividends.

### Saint Paul New Preferred "When Issued"

The Chicago, Milwaukee, Saint Paul & Pacific reorganization plan calls for a number of new securities of which one is a $5 cumulative preferred stock. This carries a dividend which is cumulative since the beginning of 1940 and there are already $10 a share in accrued dividends on it and there will be $15 a share early in 1943. Yet this stock sells for under 20 in the "when issued" market. The buyer will get over half of this back, and over a quarter more, in a few months, if the plan goes through. The plan is before the Supreme Court of the United States, to decide some technical points of law, and a decision is expected in the next few weeks. If the plan is overruled, the owner of the "when issued" contract to buy the preferred merely loses his commissions, a small price to pay for a long term call. If the decision is in favor of the plan, he has bought what may prove to be an extremely cheap stock. The 1941 net income of the road is figured at $7.41 a share on the new preferred, and the 1942 earnings are running far above that. In the line of reorganized railroad dividends, there will be an initial dividend of 62½ cents a share on the new Chicago Great Western preferred, which is also cumulative, leaving $4.37½ a share in accrued dividends on it as of Oct. 1, 1942.

## STOCKS WITH THE RIGHT TO PARTICIPATE

| Name | Preference of Senior Stocks in Annual Dividends Per Share | Participation in Further Dividends Per Share Annually | Present Dividends Per Share On the Senior Stock# | Present Dividends Per Share On the Junior Stock# | Recent Price On the Senior Stock |
|---|---|---|---|---|---|
| *Bendix Home Appliance cvt. A | 30c cum. | A gets 3 times as much as any div. paid on com. | 30c reg. and 30c ptc. | 10c paid 7/1/42 | 6½ |
| *Bon Ami A | $4.00 non-cumulative | A participates equally after common gets $2.50 | $4.00 | $2.50 | 86 |
| *Diamond Match preferred | $1.50 cum. | Preferred shares equally, after common gets $1.50 | $1.50 | $1.50 | 39 |
| *Florsheim Shoe A | .... | Each share A must get double that of B | $2.00 | $1.00 | 19½ |
| *Hershey Chocolate preferred | $4.00 cum. | After payment regular pfd. div., the pfd. gets $1.00 more before common any | $5.00 | $3.00 | 89 |
| Kelsey-Hayes Wheel A | $1.50 cum. | After B gets $1.50, both then share equally in other divs. | $1.50 | 37½c paid 7/1/42 | 12½ |
| Kendall Company preferred | $6.00 cum. | Pfd. gets additional div. from 4½% of net earnings, up to $2.50 per share | $6.00 | 50c | 103½ |
| Louisville Gas & Elec. A | $1.50 non-cum. | After $1.50 on B, both A and B share alike | $1.50 | $1.00 | 14 |
| *Southern California Edison original preferred | $1.25 cum. | Shares equally with other preferreds above 5% of par, or with common above 5% of par | $1.75 | $1.75 | 40 |
| *Westinghouse Electric & Manufacturing preferred | $3.50 cum. | Shares equally with the common after the latter receives $3.50 div. | $4.00 | $4.00 | 116 |

*Is participating now, or has in recent years. #Indicated or expected rate for 1942.

### For Those With Patience

British American Tobacco ordinary stock is selling at near $7 a share here and at 80 shillings a share in London. At fixed exchange rates, that would mean about $16 a share "over there." The question naturally arises—"then why not buy it here and sell it there?" It can be done, where the necessary papers are obtainable. But there is more to it than just that. The seller cannot get his money out of England "for the duration." He can invest it there, or leave it in a bank. After the war, he may be able to cash in, but that may be quite a test on the patience. There are numerous other examples of stocks with markets here and in London, with a wide spread in price between. Some people have been doing this "long deferred" arbitrage, and some others have been buying British shares here to hold for after the war rather than tieing up the funds over there. This includes some buying of British consols, also some arbitrage buying of them here and selling of them there, of course with the money to "stay not available for the duration."

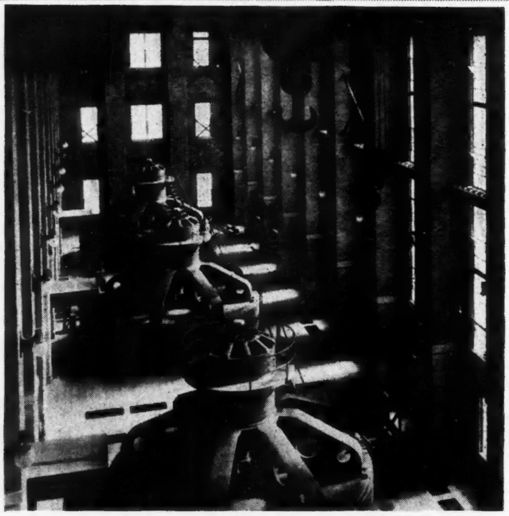
### Intercontinental Rubber

The Mexican Government has announced that all guayule rubber produced in that country will be shipped to the United States. The largest producer of this rubber from the guayule shrub is Intercontinental Rubber, which owns 1,800,000 acres of land devoted to the shrub in Mexico. About half of its holdings,

*(Please turn to page 613)*

# Selected Utilities for Income Investors

BY FRANCIS C. FULLERTON



THE utility industry has been the "whipping boy" of the New Deal Administration and has suffered accordingly. On top of the stringent regulations of the SEC, FPC, FCC and other alphabet agencies, the utilities now are staggering under an immense tax burden. They are probably the most heavily taxed industry, due to the combination of severe local and federal taxes. However, the inherent soundness of the industry and its rapid growth have enabled it to bear the burdens of increased costs, and the senior securities of the independent operating companies have remained well protected.

The holding companies, except for a few of the strongest, have been affected much more severely than the operating companies, since they are superimposed on the latter and their securities have much greater "leverage." Moreover, many of them have had their income cut off in whole or part as the result of SEC regulations and other difficulties.

During the 1920's utility stocks enjoyed a great boom and the holding companies, with their extra leverage, rose to fantastic prices. Most of the holding company common stocks are now selling at very small fractions of their 1929 high levels. As a result of the deflation of the early 1930's and the Washington pressure in later years, followed by the tax blow, many senior holding company securities have also entered the speculative class. Investors can, however, find a few bargains in the holding company list, where the system has enjoyed a conservative set-up and sound management. Examples are American Gas & Electric, North American Company, American Light & Traction, etc. As a general rule, however, it is safer to confine investments for income to the operating companies' securities, or at least to include only a small proportion of holding company issues.

As indicated in Table No. 1, excellent yields are obtainable today from the highest grade operating company common stocks. The average yield obtainable from the group listed in Table I is about 9½%. The reason for these attractive yields (which compare with average income of about 3% on high grade utility bonds) is that in some cases the dividend rates have not yet been fully adjusted to probable 1942 earnings. Thus in our list about half the companies have been paying out more than the estimated earnings for 1942. Dividend policies in the early months of 1942 were still based on 1941 earnings, which in most cases afforded ample coverage. Four out of the ten companies have already made downward readjustments in their rates and others will probably follow. Nevertheless, in our opinion this has been fully discounted in the present prices of these stocks, for under normal investment conditions a yield of 6 or 7% would be considered ample for stocks of this type, most of which have long unbroken dividend records. Moreover, it is probable that after the war the present onerous tax burden will be lightened, with resulting improvement in earnings and dividends.

Some investors may hesitate to buy because of fears that if the war lasts several years longer, the tax burden may be still further increased. While this remains a possibility, we think that Congress realizes that the corporations are now being taxed "up to the hilt" and that any further substantial increase would have disastrous

## Utility Operating Company Common Stocks

| | Price About | Div. Rate | Approx. Yield | 1941 Earn. | Price Times '41 Earn. | Est. 1942 Earn. | Price Times Est. '42 Earn. |
|---|---|---|---|---|---|---|---|
| Boston Edison | 22 | $2.00 | 9.1% | $2.43 | 9.0 | $2.00 | 11.0 |
| Cleveland El. Illum | 22 | 2.50 | 11.4 | 2.54 | 8.7 | 1.80 | 12.3 |
| Commonwealth Edison | 19 | *1.40 | 7.4 | 2.10 | 9.1 | 1.55 | 12.2 |
| Consolidated Edison | 13 | 1.60 | 12.3 | 2.00 | 6.5 | 1.35 | 9.6 |
| Consolidated Gas (Balt.) | 50 | 3.60 | 7.2 | 4.65 | 10.8 | 3.70 | 13.6 |
| Detroit Edison | 16 | *1.20 | 7.5 | 1.96 | 8.2 | 1.15 | 14.0 |
| Indianapolis P. & L. | 11 | *1.20 | 10.9 | 2.47 | 4.5 | 1.80 | 6.1 |
| Pacific Gas & Elec. | 19 | 2.00 | 10.5 | 2.31 | 8.2 | 1.50 | 12.7 |
| Public Service N. J.† | 10 | * .80 | 8.0 | 2.03 | 4.9 | .70 | 14.3 |
| So. Calif. Edison | 17 | 1.75 | 10.3 | 2.38 | 7.1 | 1.60 | 10.6 |

*Based on current quarterly rate (recently reduced).
†Technically a holding company, but usually classed with operating companies.

## Utility Prefered Stocks

(Arranged in order of Yield)

| | Price About | Div. Rate | Approx. Yield | Consol. 1940 | Earnings 1941 | Per Share Est. '42 |
|---|---|---|---|---|---|---|
| American Gas & Elec | 95 | $4.75 | 5.0% | $42.55 | $39.05 | $30.00 |
| United Gas Improvement | 100 | 5.00 | 5.0 | 36.32 | 28.46 | 22.00 |
| *Consumers Power | 99 | 5.00 | 5.1 | 14.83 | 12.63 | 10.00 |
| Pacific Lighting | 97 | 5.00 | 5.2 | 30.17 | 31.91 | 30.00 |
| Pacific Gas & Elec | 29 | 3.00 | 5.2 | 4.58 | 3.90 | 3.00 |
| So. Calif. Edison | 29 | 1.50 | 5.2 | 3.67 | 3.78 | 3.00 |
| *Public Serv. of Ind | 88 | 5.00 | 5.7 | .... | 21.32 | 20.00 |
| Consolidated Edison | 86 | 5.00 | 5.8 | 16.69 | 15.53 | 12.00 |
| American Lt. & Trac | 26 | 1.50 | 5.8 | 11.01 | 10.85 | 10.50 |
| *Gen. Tel. conv | 43 | 2.50 | 5.8 | 15.11 | 12.69 | 9.00 |
| North American Co | 46 | 3.00 | 6.5 | 15.60 | 15.56 | 12.00 |
| Georgia Power Co | 93 | 6.00 | 6.5 | 9.09 | 10.59 | 9.00 |
| National Pwr. & Lgt. | 73 | 6.00 | 8.2 | 31.73 | 26.03 | 15.00 |
| Federal Lt. & Trac | 71 | 6.00 | 8.5 | 29.93 | 24.66 | 20.00 |
| Niagara Hudson Power | 47 | 5.00 | 10.7 | 23.01 | 23.00 | 15.00 |

*Over-counter.

economic effects. It is possible that the normal tax might be stepped up to 55% next year, as the Treasury wished to do this year, but even so all of the companies in our list (with the possible exception of Public Service of New Jersey) should be able to continue dividend payments. Some further downward adjustment in prices might then occur, but we do not think this would compare with the drastic declines of the past two years.

The Cowles Commission for Research in Economics has compiled data on the average price-earnings ratios of utility stocks for the period 1900-1940. During the first half of this period, these stocks sold at about 15-20 times earnings. In the early 1920's the ratio dropped to about 8 (due to increasing utility earnings) but the sudden wave of popularity for these stocks resulted in an average price-earnings ratio of about 25 in 1929. During the 1930's the ratio again rose, and for 1934-40 averaged about 13 times earnings. As will be noted from the table, current prices average only about 7 times last year's earnings, but are nearly 12 times 1942 estimated earnings, after full allowance for the pending higher tax rates. Thus prices have automatically adjusted themselves to the new earnings level, and are in agreement with the long-term trend.

### Few Operators Affected by SEC Rulings

None of the operating companies in Table I should be greatly affected by pending or future S E C regulations, in our opinion, with the possible exception of Public Service of New Jersey, which has been under S E C investigation. The common stock of that company has been included in the list because of its high leverage and the probability that with any reduction in taxes it would enjoy a considerable increase in market value. The present price of 10 compares with a 1937 high of 52¾ and a 1940 high of 43½. The company seems basically sound and has enjoyed excellent management, but the tax burden has been especially heavy and the common stock has suffered because of its high leverage.

Table II presents a list of 15 utility preferred stocks, a few of which are holding company issues. With the exception of the last three (National Power & Light, Federal Light & Traction and Niagara Hudson Power), dividends still seem well secured by 1942 estimated earnings. Thus American Gas & Electric (sub-holding company in the Electric Bond and Share group) is still covering its preferred dividend about 6 times, it is estimated, on a consolidated basis, after full allowance for the effects of the new taxes. United Gas Improvement preferred is also highly regarded by investors, and the dividend seems covered about 4½ times; the company has paid dividends on its common stock without interruption since 1885.

Most of these preferred stocks can be purchased at substantially higher yields than have been obtainable in recent years, despite the fact that yields on high grade utility bonds have declined.

In selecting a portfolio of utility preferred and common stocks, consideration should be given to the following factors: (1) geographical diversification, to avoid local factors such as coastal blackouts, California earthquake possibilities, stringent local regulation, government competition, droughts affecting hydro-electric companies, etc.; (2) common stock selections should preferably be limited to operating companies; (3) preference should be given to the larger stock issues, since many small issues have "wide" markets, with spreads of several points between bid and asked prices; (4) small investors should limit their selection to issues listed on the New York Stock Exchange or the Curb Exchange, since quotations on over-counter issues are frequently not published in the newspapers; (5) companies with conservative capitalization should be favored, since those with a high percentage of bonds and preferred stocks are more vulnerable to increasing tax burdens; and (6) the investor should watch current quarterly earnings reports carefully, particularly with reference to tax accruals, in order to avoid issues which are being hit hard by excess profits taxes, etc.

### Higher Tax Accruals

Many readjustments have taken place in recent months in the prices of second grade preferred stocks as current earnings reports became available. Most companies have followed a policy in the second quarter of accruing taxes at the rates proposed in the pending tax bill now before the Senate Finance Committee (90% excess profits and 45% normal-plus-surtax). Many of these companies included in the second quarter an additional amount to make up for the smaller accrual in the first quarter. Thus recent earnings figures have presented a highly confused picture, but in most cases the financial services have aided investors by indicating in footnotes the tax policy followed by the individual company in making its recent accruals. In only a few cases (Boston Edison for example) has the company refused to undertake any estimate of the current tax burdens in its official earnings statement.

Earnings statements for the 12 months ended June 30th, 1942, which have (*Please turn to page 619*)

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

## Bristol-Myers Co.

*Holding 100 shares of Bristol-Myers common at 52, for income and capital growth, I was disappointed with the recent dividend cuts. Is this indicative of a trend or do you feel the company will be successful in solving its problems of getting raw materials, substitute containers, etc. With the increased demand for military purposes superimposed on civilian needs, I had hopes that the stock would appreciate to my purchase price this year. Should I continue to hold or switch? —R. J. G., Youngstown, Ohio.*

Bristol-Myers is the third largest domestic producer of proprietary drug products. This company manufactures Ipana toothpaste, Sal Hepatica, Ingraham's shaving cream, Vitalis hair dressing and Rubber Set brushes. The company has pursued a steady policy of developing new products for the last ten years and maintains a good competitive position in the trade. Like other drug and cosmetic companies earnings are expected to be lower during the war primarily because of heavier taxes, difficulty of obtaining certain raw materials, and higher costs. At the time of the reduction of the dividend from 60 cents quarterly to 50 cents, President Henry P. Bristol stated "In reducing the dividend at this time directors gave consideration to the uncertainty of the times, to the present and impending shortages of materials, and to the increased necessity of conserving cash to meet present and future tax requirements." Earnings for the first six months of this year equalled \$1.50 a share after provision of \$2,413,014 for Federal taxes as compared with \$1.95 in the year previous when provision for contingencies amounted to \$350,000. This gives us a clear indication of the impact of the new taxes on the company and the wisdom of the directors in making a small reduction in the quarterly dividend at this time. Finances of the company are in excellent shape and we accordingly recommend holding the stock at current depreciated levels.

## Crocker Wheeler Electric Mfg. Co.

*To my mind the market action of Crocker Wheeler certainly does not reflect the more favorable aspects of the situation. Here is a stock selling around 5 which earned \$2.52 last year and in March resumed dividends for the first time since 1937. What appears to be retarding its price valuation? Can you give me your estimate of potential earnings this year in view of heavier taxes and increased costs. I have 300 shares purchased at 9 and would like to regain my original investment in this stock.—D. J. M., Jacksonville, Fla.*

About the only thing that can be retarding the market action of Crocker Wheeler is the past dividend record of the company. In the fifteen years from 1926 to 1941 the company paid 10 cents in 1936 and 10 cents in 1937. So far this year the company has been able to pay two dividends of 15 cents each. The company normally manufactures electric motors, generators, motor generators and couplings. At present almost all of its business is connected with the war program. It appears probable that some plant expansion may be required this year in order to fill Government orders. The high rate at which the company is now operating has reduced costs and profit margins are also being helped by operating economies. Taxes will be much more burdensome this year and will probably hold earnings below the \$2.52 a share earned in 1941. We estimate that the company may earn between \$1.50 to \$2 this year. The future of the company appears bright for the duration of the war. The post-war prospects of the company are relatively favorable since a sizable civilian demand for its products will have accumulated. Financial position of the company is good as there are no bonds or preferred stocks ahead of the common. The working capital ratio is as 1.8

(*Please turn to page 620*)

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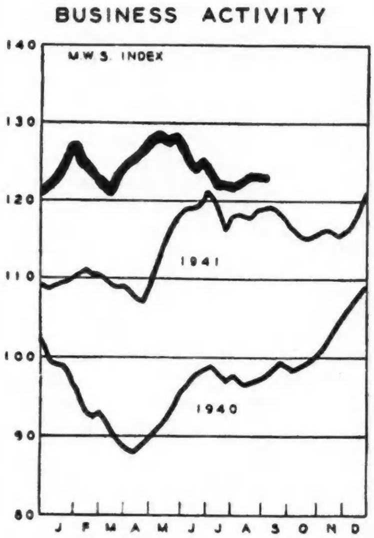
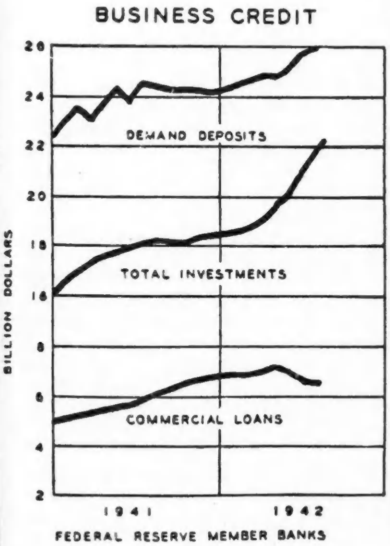
# The Business Analyst




## CONCLUSIONS

**INDUSTRY**—War activities absorb 41% of national income. Civilian production 20% below last year.

**TRADE**—Public spends only 47% of its income at retail stores, against 58% a year ago.

**COMMODITIES**—Staples remain below parity prices; adjustments to President's anti-inflation program in progress.

**MONEY AND CREDIT**—1% discount rate ineffective; since banks borrow "Federal funds" at 1/4% or sell Treasury bills to reserve bank, with repurchase privilege, at 3/8% discount.

Per capita **business activity** has sagged a little since our last issue; though paperboard production, after declining for several months, has begun to pick up at a somewhat better than normal seasonal rate. Average for the month of August was around 122.3, compared with 123.0 in July and 118.5 for August, 1941. Without compensation for population growth, this publication's index was 145% of the 1923-5 average in August, against 146 during July and 139 for August of last year—indicating a 12-months' rise of about 4.3%.

* * *

Federal **disbursements for war** activities during August reached approximately $5.2 billion, equivalent to about 41% of the national income. Diversion of labor and material to war needs has forced a 20% drop below last year in estimated production of goods and services for civilian use; but accumulated inventories of discontinued lines will probably postpone until next year the inevitable slump in **living standards.** Department of Commerce estimates that personal expenditures during the first half were only 7% above the like period last year, despite a 22% increase in the national income and an 18% rise in disposable income after direct taxes. The moderate increase in spending is explained by a jump of more than 100% in savings, mostly through reductions in installment debt and investment in war savings bonds. Allowing for the 10% rise in living costs the increase of only 7% in personal expenditures would indicate a

(Please turn to following page)

# Business and Industry

| | Date | Latest Month | Previous Month | Last Year |
|---|---|---|---|---|
| **INDUSTRIAL PRODUCTION(a)** | July | 180 | 176 | 160 |
| **INDEX OF PRODUCTION AND TRADE (b)** | July | 118 | 115 | 131 |
| Production | July | 126 | 123 | 116 |
| Durable Goods | July | 143 | 138 | 123 |
| Non-durable Goods | July | 111 | 111 | 111 |
| Primary Distribution | July | 140 | 137 | 116 |
| Distribution to Consumers | July | 87 | 83 | 107 |
| Miscellaneous Services | July | 126 | 124 | 102 |
| **WHOLESALE PRICES (h)** | Aug. | 98.8 | 98.7 | 90.6 |
| **COST OF LIVING (d)** | | | | |
| All Items | July | 97.5 | 97.8 | 88.9 |
| Food | July | 100.3 | 99.5 | 86.2 |
| Housing | July | 90.8 | 91.0 | 88.4 |
| Clothing | July | 88.0 | 88.1 | 73.8 |
| Fuel and Light | July | 90.4 | 90.4 | 87.8 |
| Sundries | July | 104.1 | 104.1 | 98.7 |
| Purchasing Value of Dollar | July | 102.6 | 102.8 | 112.5 |
| **NATIONAL INCOME (cm)†** | July | 9,383 | 9,553 | 7,739 |
| **CASH FARM INCOME†** | | | | |
| Farm Marketing | July | $1,219 | 1,070 | 889 |
| Including Gov't Payments | June | $1,125 | 1,030 | 798 |
| Prices Received by Farmers (ee) | Aug. | 163 | 154 | 131 |
| Prices Paid by Farmers (ee) | Aug. | 152 | 152 | 133 |
| Ratio: Prices Received to Prices Paid (ee) | Aug. | 107 | 101 | 96 |
| **FACTORY EMPLOYMENT (f)** | | | | |
| Durable Goods | July | 160.2 | 157.1 | 137.6 |
| Non-durable Goods | July | 123.9 | 122.0 | 123.9 |
| **FACTORY PAYROLLS (f)** | July | 202.4 | 197.7 | 152.7 |
| **RETAIL TRADE** | | | | |
| Retail Store Sales $† | July | $4,389 | 4,445 | 4,509 |
| Durable Goods (a) | July | 104.8 | 100.1 | 169.5 |
| Non-durable Goods (a) | July | 156.0 | 146.8 | 137.0 |
| Chain Store Sales (g) | July | 177 | 171 | 141 |
| Retail Prices (s) as of | July | 113.1 | 113.1 | 99.6 |
| **FOREIGN TRADE** | | | | |
| Merchandise Exports† | Apr. | $682 | $609 | $385 |
| Cumulative year's total† to | Apr. | 2,249 | ...... | 1,372 |
| Merchandise Imports† | Apr. | 234 | 272 | 287 |
| Cumulative year's total† to | Apr. | 1,014 | ...... | 1,018 |
| **RAILROAD EARNINGS** | | | | |
| Total Operating Revenues★ | July | $665,181 | 623,687 | 485,446 |
| Total Operating Expenditures★ | July | 390,476 | 378,472 | 310,034 |
| Taxes★ | July | 125,838 | 110,499 | 57,195 |
| Net Rwy. Operating Income★ | July | 133,001 | 118,730 | 106,381 |
| Operating Ratio% | July | 58.70 | 60.68 | 63.87 |
| **STEEL** | | | | |
| Ingot Production in tons★ | Aug. | 7,233 | 7,148 | 6,997 |
| Pig Iron Production in tons★ | Mar. | 5,113 | 4,458 | 4,704 |
| Shipments, U. S. Steel in tons★ | Aug. | 1,788 | 1,765 | 1,753 |
| **GENERAL** | | | | |
| Paperboard, new orders (st) | July | 393,968 | 379,375 | 569,252 |
| Lumber Production† (bd. ft.) | June | 2,861 | 2,680 | 2,786 |
| Cigaret Production† | July | 20,875 | 20,003 | 18,404 |
| Bituminous Coal Production★ (tons) | Aug. | 47,160 | 47,700 | 46,651 |
| Portland Cement Shipments★ (bbls.) | July | 20,875 | 20,003 | 18,404 |
| Commercial Failures (c) | July | 764 | 804 | 908 |

## PRESENT POSITION AND OUTLOOK

(Continued from page 609)

decline of 3% in living standards.

* * *

According to the Department of Commerce, **interest and dividend payments** during the first half were about on a level with last year; but corporate savings were off 8%, owing to a 25% rise in business taxes and a 33% increase in contingency, depletion, and other reserves.

* * *

The President's proposal to hold farm prices at 100% of parity and to gear wages to living costs, if enforced, would of itself slow, but not stop, the rise in **prices.** It would certainly be an improvement over the present situation under which the law permits farm prices to reach an average of 116% of parity, while weekly wages of organized labor are rising more than twice as fast as the cost of living. In July the weekly **wages** of factory workers had an 11% greater purchasing power than a year earlier. In considering the inflation problem it should be noted that excess purchasing power is being created nearly as fast by expansion in employment (up 7% in 12 months) as by rising hourly wages (up 12%) and lengthening of the work week with overtime pay. The problem will be easier to solve when expansion in employment levels off a year or more hence. Meanwhile control of farm prices and hourly wage rates must be supplemented by stiffer taxes on war-swollen wages and salaries, by greater voluntary or enforced savings—or both—if price advances are to be effectively curbed in the face of contracting production of consumer goods. Our guess is that measures adopted in the near future will not be sufficiently drastic or comprehensive to do more than retard the rise in living costs.

* * *

Sales during July by **retail stores** throughout the nation totaled $4.39 billion. This was only 3% below the like month of 1941 on a dollar basis; but represented a slump of 17% in unit quantities, owing mainly to rationing of automobiles and tires. July retail sales of durable goods were 38% lower than a year earlier; but sales of nondurables rose 14%. The public spent only 47% of its total income in retail stores during July, against 58% a year ago. **Department store sales** in the week ended Aug. 29 were 14% below last year, compared with a decline of only 6% for four weeks and an increase of 10% for the year to date. These comparisons are far from gloomy when it is recalled that last year's buyers' panic reached its peak in August, rising to about 30% above normal. W P B has ordered large retail dealers, except in food and fuel, to submit quarterly reports on inventories. Should perusal of these reports indicate the need for **inventory control,** the earliest date for enforcement will be March 1, 1943.

* * *

In view of curtailed consumption by civilians, current production of **petroleum,** which is running around last year's high level, will suffice for war needs; but the industry wonders if it will be

## WEEKLY INDICATORS

| | Date | Latest Week | Previous Week | Year Ago |
|---|---|---|---|---|
| **M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100** | Sept. 5 | 122.7 | 122.4 | 119.3 |
| **ELECTRIC POWER OUTPUT** | | | | |
| K. W. H.† | Sept. 5 | 3,672 | 3,639 | 3,123 |
| **TRANSPORTATION** | | | | |
| Carloadings, total | Sept. 5 | 887,960 | 899,419 | 797,791 |
| Grain | Sept. 5 | 44,084 | 47,463 | 36,878 |
| Coal | Sept. 5 | 166,100 | 167,981 | 150,164 |
| Forest Products | Sept. 5 | 52,442 | 54,686 | 29,646 |
| Manufacturing & Miscellaneous | Sept. 5 | 420,057 | 419,326 | 336,683 |
| L. C. L. Mdse | Sept. 5 | 88,997 | 91,157 | 138,398 |
| **STEEL PRICES** | | | | |
| Pig Iron $ per ton (m) | Sept. 10 | 23.61 | 23.61 | 23.61 |
| Scrap $ per ton (m) | Sept. 10 | 19.17 | 19.17 | 19.17 |
| Finished c per lb. (m) | Sept. 10 | 2.305 | 2.305 | 2.305 |
| **STEEL OPERATIONS** | | | | |
| % of Capacity week ended (m) | Sept. 10 | 98.0 | 97.7 | 97.5 |
| **PETROLEUM** | | | | |
| Average Daily Production bbls.★ | Sept. 5 | 3,682 | 3,964 | 3,814 |
| Crude Runs to Stills Avge. bbls.★ | Sept. 5 | 3,656 | 3,697 | 4,051 |
| Total Gasoline Stocks bbls.★ | Sept. 5 | 80,356 | 80,831 | 80,366 |
| Fuel Oil Stocks bbls.★ | Sept. 5 | 78,267 | 78,034 | 93,900 |
| Crude—Mid-Cont. $ per bbl | Sept. 14 | 1.17 | 1.17 | 1.17 |
| Crude—Pennsylvania $ per bbl | Sept. 14 | 2.55 | 2.55 | 2.23 |
| Gasoline—Refinery $ per gal | Sept. 14 | 0.092 | 0.117 | 0.85 |
| **ENGINEERING CONSTRUCTION** | | | | |
| Volume★ (en) | Sept. 10 | $97,311 | 261,671 | 139,478 |

### PRESENT POSITION AND OUTLOOK

able to meet the post-war upsurge in demand. Drilling, about 75% of which is normally done by wildcatters, has dropped to about half of last year's rate—owing to material and equipment shortages, higher costs, and the unattractively low price for crude. The larger companies, however, are trying to maintain their exploratory work.

* * *

Despite an increase of more than 100% in tax reserves, **railroad** net income in seven months reached $376 million—62% above the like period last year. The nation's carriers—rail, truck, lakes, waterways, pipe lines—handled 704 trillion ton-miles of freight last year, against only 316 trillion in 1932. The rails did 67.8% of this business last year, compared with 64.3% in 1940 and 74.5% in 1932. As to passenger-miles, the rails last year gained 24% over 1940, domestic airlines 31% and buses 22%. O D T estimates that carloadings next year will average 7% above this year, that revenue ton-miles will gain 15% and that passenger-miles will rise 14%. To handle this increased traffic the rails will need 80,000 more **freight cars** and 900 more **locomotives.**

* * *

Armament output by **automotive industry** has reached annual rate of $5 billion. Peak is scheduled for $12 billion—treble its peace-time output.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

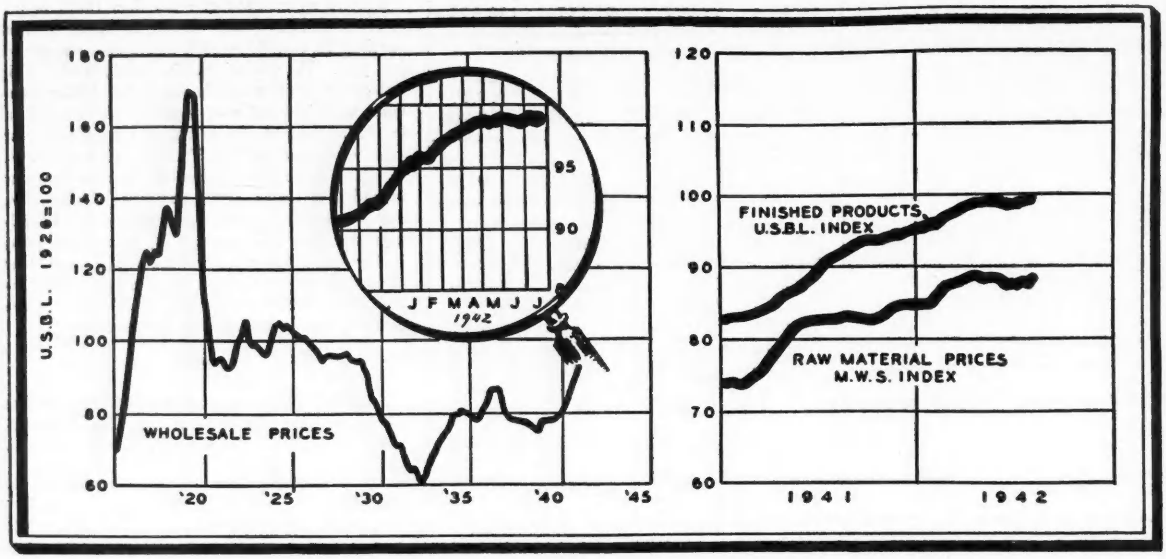
| No. of Issues (1925 Close—100) | 1942 Indexes High | Low | Sept. 5 | Sept. 12 |
|---|---|---|---|---|
| 270 COMBINED AVERAGE | 48.6 | 41.4 | 46.0 | 45.7 |
| 3 Agricultural Implements | 87.9 | 72.7 | 84.9 | 83.9 |
| 9 Aircraft (1927 Cl.—100) | 172.6 | 123.8 | 140.0 | 140.7 |
| 4 Air Lines (1934 Cl.—100) | 276.3 | 178.4 | 269.1 | 273.8 |
| 5 Amusements | 36.5 | 27.0 | 34.3 | 35.1 |
| 13 Automobile Accessories | 79.3 | 70.4 | 74.7 | 75.2 |
| 13 Automobiles | 9.7 | 7.1 | 8.9 | 8.7 |
| 3 Baking (1926 Cl.—100) | 6.1 | 5.0 | 5.8 | 6.1 |
| 3 Business Machines | 108.4 | 81.7 | 105.1 | 104.8 |
| 2 Bus Lines (1926 Cl.—100) | 64.6 | 38.2 | 51.9 | 53.9 |
| 6 Chemicals | 156.3 | 126.3 | 143.6 | 143.5 |
| 14 Construction | 19.6 | 16.4 | 17.8 | 17.9 |
| 5 Containers | 163.1 | 138.4 | 154.5 | 153.8 |
| 8 Copper & Brass | 75.1 | 58.6 | 62.7 | 61.3 |
| 2 Dairy Products | 29.6 | 25.5 | 29.1 | 29.2 |
| 6 Department Stores | 16.3 | 12.4 | 14.3 | 14.1 |
| 6 Drugs & Toilet Articles | 43.5 | 37.1 | 42.6 | 42.3 |
| 2 Finance Companies | 139.0 | 99.5 | 139.0A | 137.4 |
| 7 Food Brands | 78.6 | 60.6 | 68.9 | 68.7 |
| 2 Food Stores | 43.7 | 32.2 | 38.9 | 39.1 |
| 4 Furniture | 29.1 | 23.7 | 28.6 | 28.1 |
| 2 Gold Mining | 455.9 | 315.4 | 400.2 | 398.2 |
| 6 Investment Trusts | 16.5 | 13.8 | 16.2 | 16.1 |

| (Nov. 14, 1936, Cl.—100) | 1942 Indexes High | Low | Sept. 5 | Sept. 12 |
|---|---|---|---|---|
| 100 HIGH PRICED STOCKS | 51.96 | 43.20 | 48.74 | 48.42 |
| 100 LOW PRICED STOCKS | 38.78 | 31.66 | 35.64 | 35.17 |
| 3 Liquor (1932 Cl.—100) | 185.8 | 137.5 | 181.8 | 180.9 |
| 8 Machinery | 83.8 | 67.9 | 74.5 | 74.3 |
| 2 Mail Order | 56.2 | 45.2 | 56.1 | 54.9 |
| 4 Meat Packing | 46.0 | 29.5 | 29.5k | 29.8 |
| 9 Metals, non-Ferrous | 131.7 | 100.0 | 104.9 | 101.3 |
| 3 Paper | 11.3 | 8.8 | 9.2 | 8.8c |
| 21 Petroleum | 74.6 | 59.8 | 71.5 | 70.6 |
| 16 Public Utilities | 19.1 | 13.7 | 15.5 | 15.0 |
| 3 Radio (1927 Cl.—100) | 9.9 | 5.9 | 9.4 | 9.4 |
| 7 Railroad Equipment | 37.9 | 28.6 | 31.3 | 30.7 |
| 16 Railroads | 9.9 | 7.6 | 9.0 | 8.8 |
| 2 Realty | 1.9 | 1.3 | 1.3 | 1.4 |
| 2 Shipbuilding | 112.0 | 84.2 | 88.4 | 89.1 |
| 12 Steel & Iron | 65.0 | 53.1 | 55.2 | 55.1 |
| 2 Sugar | 40.1 | 26.5 | 32.1 | 32.0 |
| 2 Sulphur | 179.4 | 137.5 | 161.0 | 163.5 |
| 3 Telephone & Telegraph | 41.6 | 30.6 | 41.1 | 41.6A |
| 2 Textiles | 34.2 | 24.4 | 28.7 | 29.1 |
| 3 Tires & Rubber | 12.9 | 7.9 | 12.9A | 12.9 |
| 4 Tobacco | 55.3 | 40.7 | 49.0 | 49.5 |
| 2 Variety Stores | 187.2 | 147.7 | 175.0 | 175.4 |
| 19 Unclassified (1941 Cl.—100) | 109.9 | 90.8 | 99.8 | 100.0 |

A—New HIGH this year. New LOWS since: c—1939; k—1933.

# Trend of Commodities

Anti-inflation legislation giving the President "all the power he needs" to stabilize living costs will apparently be enacted with comparative rapidity. It is to be in the form of a Congressional resolution, covering both wages and farm prices. Pending the completion of this development trading in futures of the now existing free markets have moved over to the sidelines. Consequently there are no price or activity trends observable in these markets at present. In the past week some of the commodity markets reacted to the price-control message with strange disregard for actual price or supply situations. A similar trend may well extend through the coming fortnight. Grains and cotton, now somewhat under the parity level, moved up, the cotton market wavering but slighty in the face of a crop estimate of 14 million bales for the year. Logically, the markets for hogs and beef, well above parity, should have sharply declined on the President's recommendations. Actually they fluctuated within a close range to the previous levels, though also in this case there is every indication of rising production, and meat rationing in the offing. A partial explanation of this situation is, that in respect to neither farm prices nor wages are "drastic" actions expected.




**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES**
**Spot Market Prices—August, 1929, equal 100**

| | Sept. 11 | Sept. 4 | | Sept. 11 | Sept. 4 |
|---|---|---|---|---|---|
| 28 Basic Commodities | 168.0 | 167.5 | Domestic Agricultural | 183.7 | 182.9 |
| Import Commodities | 162.5 | 162.4 | Foodstuffs | 187.4 | 187.0 |
| Domestic Commodities | 171.7 | 170.9 | Raw Industrial | 154.7 | 154.1 |

## Commodity Briefs

**Wheat.** Government wheat loans continue to expand. Through August 29 the Commodity Credit Corporation had completed 175,439 loans on 92,167,606 bushels of 1942 wheat, in the amount of $107,412,759, compared with 65,645 loans, on 33,840,409 bushels for the same 1941 period. The average amount advanced was $1.165 per bushel.

**Rubber.** More than 950,000 tons of the synthetic product a year will be rolling out of new American plants, according to a late W P B report, by November 1, 1943. Butadiene is to form three-fourths of this synthetic rubber; styrene the remainder. Production of butadiene will be scattered through seven states, 11 cities and towns, and one Canadian city. It will be divided among 12 companies.

**Corn.** If the nation's corn crop should prove to reach the 2,849,000,000 bushels forecast by a private expert, it will be the fifth largest since World War I. The only crops that have exceeded such a harvest in the last twenty-five years were in 1920, 1921, 1923 and 1932. In the 10-year period, 1930-39, corn production averaged 2,307,000,000. The remarkable development about the present crop is that it is being grown on about 89 million acres, as against bumper crops in past years from an area in excess of 100 million acres.

**Tobacco.** Stocks of leaf tobacco owned by dealers and manufacturers in the United States and Puerto Rico, totaled 2,787,-377,000 pounds on July 1, 1942, compared with 2,923,692,000 pounds on July 1, 1941—a decrease of 136,315,000 pounds. In the period April 1-July 1 this year, stocks decreased 266,241,000 pounds, compared with 211,672,000 pounds for the same 1941 quarter period. These larger decreases in stocks, has resulted from domestic consumption of record proportions, and increased exports under the Lend-Lease Act.

**Cotton.** Based on August 1 conditions, the total supply of American cotton this season is expected to be about 23.4 million bales, compared with 22.6 million bales last season. The carry-over supply will amount to 10.5 million bales, a decline of 1.6 million from August 1, 1941. The new crop of 12.9 million bales, compared with 10.6 bales in 1941, more than offsets the carry-over decline. In July the rate of daily consumption declined to the lowest point since last December. Total consumption, however, was 995,000 bales compared with 967,000 in June.

**Copper.** Metal totaling 111 million pounds is reported being held in the idle and surplus stocks of 14,000 firms, a recent W P B survey disclosed. Two-thirds of the firms have agreed to sell the copper to the Government.

## For Profit and Income

(*Continued from page* 605)

however, are in dispute under an expropriation decree by Mexico in 1934. Representations to have this half restored to the company have been made, and there are possibilities that the U. S. Government will intervene to get the lands back. On the parts operated by the company, about 6,500 tons of rubber were produced in 1941. The company paid 40 cents a share dividends last year and this. Earnings have been running at a . ate of 60 cents a share annually.

### Unnecessary Dividend Cuts

No 'stockholder ever is pleased with a cut in his dividends, and usually thinks them unnecessary. Some detached observers often think that there is not sufficient reason for some dividend reductions, but neither the stockholder nor the observer has the same knowledge as the board of directors. An example of what looks from the sidelines to have been an unnecessary reduction in a divedend payment is that of Mueller Brass. The company earned in a six month period more than would be needed for a full year's dividend at the old rate, yet cut the dividend in half at its recent meeting, reduction being from a 50 cent quarterly to a 25 cent rate. In the six months ending May 31, the company earned $3.18 a share, which compared with $2.54 a share for the similar period the year before. This earning of a rate well over $6 a share annually would seem to have warranted a continuation of a $2 a share annual dividend, but the basis of taxes in the report is not known and it may be that the directors figure that the tax deduction will be much larger in the six months to November 30th. The company is operating at a high rate of capacity on war orders and its outlook for after the war is good. As far as can be judged, it would appear that the stockholder can count on something better than 25 cents a share quarterly dividends after a time. The stock yields not far from 5% on the $1 annual rate.

## WHAT OF TEXTILES TODAY?

(*Continued from page* 603)

The company owns and operates 25 mills, all but three being located in New England. Profits for the six months ended June 30, 1942, dropped abruptly from those of the previous similar period, amounting to only $1.09 per share of common, as against $9.20 per share for the first half of last year. Although sales rose 45 per cent in the 1942 interim, excess profits tax allowance of $12,-000,000, as against only $2,436,000 for the 1941 period, was responsible for the unimpressive showing this year. Following payments of $4 on account of arrears thus far in 1942, arrears totaled $74.25 per preferred share. Unfilled orders as of June 30, 1942, aggregated $109,400,000, sufficient to keep the plants at full capacity for many months, but little improvement in net profits is indicated for the near future.

Shipments of Belding Heminway Co., producer of silk and cotton threads for both retailer and manufacturers' use, are being largely diverted to war purposes, either directly on government orders, or through sub-contractors working on government business. Such volume is understood to be of ample proportions, with no diminution in prospect. This company reported $0.72 per share of capital stock for the first half of 1942, on a smaller number of shares, compared with $0.71 in the same months of last year. Sales were up 90 per cent for the half-year, but large increases in taxes prevented profit gains by the company. Although cash holdings have fallen considerably since the end of 1941, no alteration in the prevailing dividend rate is indicated.

Bond Stores, Inc., manufacturer and retailer of men's clothing (with a chain of about 60 retail stores), does not report earnings on an interim basis. Sales for the seven months ended July 31, 1942, were nearly 24 per cent higher than those for the similar 1941 months. This rate of gain is not expected to be maintained, inasmuch as many consumers bought heavily earlier this year, in anticipation of shortages and possible price increases. Financial condition at the 1941 year-end was satisfactory and regular dividends should be maintained.

Burlington Mills Corp. is engaged chiefly in manufacturing of woven fabrics from rayon yarns and rayon mixtures, and, also, from cotton yarns. Net profits for the six months ended March 28, 1942, were equal to $2.44 per common share, compared with $2.20 per share in the previous similar period. Operations are expected to continue at satisfactory levels, though taxes may check later earnings progress. Three dividends of $0.35 each have been paid on the common thus far in 1942, and it is probable payments may be continued on this basis.

Cannon Mills Co., accounts for about 50 per cent of the total American towel production, other items including a wide variety of finished goods. About 40 per cent of capacity is now engaged in war production, indicating narrower profit margins in future. Payments on the capital stock have totaled $1.50 per share to date this year. However, substantial bank loans revealed by the Dec. 31, 1941, financial statement suggest a more conservative dividend policy henceforth.

Celanese Corp., one of the larger factors in manufacture and sale of cellulose acetate yarn, and of fabrics containing this yarn, reports profits of $3.58 per common share for the twelve months ended June 30, last, as against $2.42 per share in the preceding twelve month period. This exhibit was gratifying in view of the doubling of Federal taxes during the recent period. Common payments to date in 1942 amount to $1.50 per common share, and it is probable that total payments for 1942 will equal the $2.00 per share distributed last year. Operating margins are expected to continue satisfactory.

Cluett, Peabody & Co., Inc., prominent manufacturer of men's apparel, reported net income of $2.03 per share of common for the first half of this year, compared with $2.11 per share for the first six months of 1941. Dividends to date amount to $1.25 per common share, as against $3.00 in 1941. Further payments are probable before the year-end. Large government orders and consumer demand should maintain operations at continued high levels, while revenues from the increased number of Sanforizing machines are expected to attain a new peak this year.

Collins & Aikman Corp., which normally produces a wide line of velvets and other textile fabrics for the automobile trade, as well as for furniture manufacturers, interior decorators and for the clothing industry, is reported to have received more than $11,000,000 in government orders for duck and serge, thus offsetting in considerable degree the loss of its erstwhile profitable automotive business. As a consequence of heavy charges for machinery changeover, operations for the three months of the new fiscal year ended May 30, 1942, resulted in a loss of $0.52 per common share, contrasted with a profit of $1.33 per share in the corresponding months of 1941. However, subsequent operations should be accompanied by a restoration of profits on the equity issues, despite the smaller profit margins on government business. No disbursements have been made on the common since March, and in view of the company's weak cash position, restoration of common dividends in the near future does not appear probable.

Gotham Hosiery Co., Inc., one of the foremost producers of women's full-fashioned hosiery, disclosed profits of $0.43 per share on the common during the first half of 1942, in contrast to a deficit of $0.08 per common share for the six months ended June 30, 1941. Demand for the company's products is expected to be maintained at high levels over coming months, although elimination of silk and nylon will result in restricting manufacture to rayon and cotton constructions, or combinations of both fibres. However, increasing military demand for rayon yarns may interfere with supply sources. Pending clarification of the outlook, earnings prospects are regarded as uncertain. No dividends have been paid on the common shares since 1930, and none are indicated for the near future. All preferred arrears have been liqui-

dated and this issue is now on a full $7 annual basis.

Earnings of Industrial Rayon Co., one of the larger producers of rayon yarn by the viscose process, declined to $1.02 per share in the half-year ended June 30, 1942, from $2.02 per share in the comparable 1941 period. Heavy excess profits taxes were responsible for the poor showing, inasmuch as operating profit exceeded that of the first half of 1941. Unless there should develop a shortage of essential chemicals, operations are expected to continue at capacity for the indefinite future. The company enjoys a strong financial position, and regular dividends are expected to continue.

Aided by a high excess profits tax exemption, earnings of Julius Kayser & Co., for the fiscal year ended June 30, 1942, rose to $2.92 per share, compared with only $1.29 per share for the previous fiscal year. Demand continues favorable, and company has successfully adapted itself to silk and nylon shortages. Granted ample supplies of rayon yarn, another profitable year is indicated. Dividends of $0.25 quarterly should be maintained.

Pacific Mills, active in the cotton, rayon and woolen divisions, with plants in both the North and South, reports profits of $2.23 for the first half of 1942, compared with $2.24 a year earlier. Past earnings record has been erratic. Dividends thus far in 1942 amount to $1.50 per share. Operations are devoted chiefly to government work.

One of the most impressive dividend records among American corporations is held by Pepperell Mfg. Co., producer of a wide range of cotton and wool-mixed goods. Not since 1852 has this company failed to make some annual disbursement on its capital stock. Payments to date in 1942 were $8 per share, being the highest since 1937. Profits for the fiscal year ended June 30, 1942, were equal to $20.21 per share, compared with $19.22 in the previous fiscal year. Favored by large war contracts, continued capacity operations are foreseen.

First-half earnings of Real Silk Hosiery Mills are customarily unimpressive, and after allowing for the small preferred issue, a deficit of $0.11 per share of common was reported, compared with a loss of $0.21 per share in the same months of 1941. Profits for the full year 1941 equalled $2.51 a common share. Operations in recent years have been featured by frequent annual deficits on the common. No dividends have been paid since 1929, on the common, and preferred arrears are substantial. Reliance Mfg. Co., largest maker of men's work shirts and women's dresses in this country, shows profits of $0.88 per common share for the three months ended March 31, 1942, as against only $0.09 in the comparable 1941 period. Government orders are increasing, and continued dividends on the $1.00 annual basis are probable.

Tubize-Chatillon Corp., prominent rayon manufacturer, reports profits of $3.95 per share of Class "A" stock for the first half of 1942, as against $5.50 per share in the 1941 comparable months. If raw materials continue available in sufficient supply, 1942 output should exceed that of last year. Dividends on this issue are expected to be maintained on the current $1 quarterly basis. United Merchants & Manufacturers, Inc., producer of various textile products, has not yet reported for the fiscal year ended June 30, 1942. Capacity operations are continuing. Dividends to date in 1942 have amounted to $1 per share. Van Raalte Co., Inc., maker of hosiery, underwear, earned $2.40 per common share in the first half of 1942, against $2.45 in the similar 1941 period. Manufacture is concentrated in rayon lines. Payments on common in 1942 amount to $1.50 per share, and disbursements on the $0.50 quarterly basis could easily be continued.

Capacity operations will continue to feature textile activities for the duration. Plant expansion since our entry into the war has not been extensive, thus mitigating to a great extent the problem of post-war overcapacity.

Among the securities of the leading textile units, the junior shares of Adams-Millis, American Viscose, Burlington Mills, Cluett Peabody, Pepperell Mfg. Co., United Merchants & Mfrs., and Van Raalte are considered attractive, not only from the standpoint of earnings performance and prospects, but also from that of consistent dividend payments.

## Brazil Blazes New Economic Trail

*(Continued from page 582)*

nent in the years prior to the Civil War. Yet the food products and vegetable raw materials that the Amazon Basin (occupying one-third of the entire South America) might produce, are almost innumerable. Besides rubber, there are at present at least 100 known varieties of plants from which oil-producing seeds, nuts and fruits could be harvested. There are also some excellent native hard fibers.

The key to the development of the Amazon Basin is a supply of relatively cheap labor. To encourage emigration to the Amazon Valley, President Vargas tried to catch the public's fancy through a slogan, "Marcha Para O Oeste" (March to the West) not unlike our own "Go West, Young Man."

The development of the Amazon Valley foods and raw material resources is important not only for the United Nations countries, for the loss of Asiatic vegetable oil and rubber production could be partially made up there. It is important for Brazil as well, for many of the products (fibers, rubber, oils) could be also used by her domestic industries. A recent agreement signed by this country and Brazil provides for the expenditure of $2,000,000 by the Cooke Technical Mission for the development of basic foodstuffs in the Amazon Basin.

Still another task of the Cooke Mission will be to survey Brazilian plants manufacturing textile and consumption goods, in an attempt to use the country's surplus textile fibers and vegetable and animal products apparently not only for domestic use but also for exports.

Most of Brazil's industries are consumption industries. Their development began during World War I, but the great depression gave them their real start. The present war gave them another stimulus. The most important among them is cotton textile manufacturing. It absorbs about 40 per cent of the home grown cotton and supplies practically the entire domestic re-

quirements. Last year Brazilian cotton textiles won for themselves a place in foreign markets and this year they came to occupy the second place in the country's exports. The industry is operating on a 24-hour basis.

Among other consumption industries are those producing paper, furniture, matches, shoes, hats, carpets, rubber products, sugar, and food products. Those using domestic materials entirely continue to be unusually busy, although fuel shortage presents an increasing problem. Other manufacturing industries include chemicals, glass, cement, and machinery.

It may be said with a degree of certainty, in summarizing the effects that Brazil's active participation in World War II will have on her economy, that the diversification of Brazilian resources, mineral in particular, will continue at a faster pace than might have been otherwise the case. This development alone should render her economy more balanced than it was prior to the present war. Even more encouraging is, however, the possibility that Brazil's consumption industries will be reorganized and built up to process domestic raw materials and foodstuffs *not for Brazil alone*, thereby making her more self-sufficient, but *for all the United Nations countries*. In other words, Brazil's role and contribution to the victory would be that of the supplier of consumption goods, just as the United States and Canada are supplying the bulk of capital goods and war material.

Thus Brazil has every chance to emerge from the war as one of the most important consumption goods producing countries in the world. Such a development would naturally produce a variety of political and economic shifts. With a more balanced economy Brazil's importance in the world's affairs would be enhanced and we would gain another powerful ally. Without doubt the nature of our trade with Brazil would be affected. Judged by our development of trade with Canada, it would be broadened and expanded though the market for many older products is likely to be lost for good. At any rate the semi-colonial, raw material producing period of Brazilian economy now belongs definitely to the past.

## New Forces Affecting Money—Bank Loans—Investments

*(Continued from page 587)*

Government securities and all other assets—around $6 billions—also will remain static.

Expansion of holdings of Treasury securities involves no significant increase, of course, in operating costs of the banks. When the time comes, as it will, that the banks hold $50 billion of these obligations, at average interest rate of 2 per cent the return to the banks would be $1 billion a year—in effect a very large Federal "subsidy." Even if average interest rate were reduced to 1 per cent through radical shortening of average maturity of securities held—an objective toward which both the Treasury and the banks are striving in behalf of maximum banking liquidity—the "subsidy" would be $500,000,000 a year. If the war is protracted, with eventual bank holdings of $100 billion or more of Treasury securities, the "subsidy" might be somewhere between $1 and $1½ billions a year, and could conceivably become a political issue raised by inflationary minded Congressmen in behalf of unorthodox schemes for handling the Federal debt.

On the other hand, the ever-increasing purchase of war bonds by many millions of our people in all walks of life is manifestly destined to prove a stabilizing force of the utmost social, political and economic importance. No country can permanently have social or political stability if the masses are debtors and the creditors are a minority of rich people and banking institutions. America is fortunate in that for many years no such extreme distinction has existed. The great majority of us are creditors either directly through ownership of Government or corporate bonds or other fixed-income investments, or indirectly through the investments of our insurance companies and savings banks. Most of us, in infinitely varying degrees and proportions, are both creditors and debtors.

In the aggregate today our people are steadily reducing their debts—they will be almost entirely out of installment debt before this war is over—and are increasing, mainly through war bonds, their investments in fixed-income securities.

It is not inconceivable that before this war is over some $40 to $50 billions of Government bonds will be owned by individuals—with votes—and that this ownership will be dispersed among at least a plurality of all our gainfully occupied people. Given that condition, in the writer's opinion, any politician not quite crazy will think twice before toying with monetary monkey-business.

As this publication has pointed out before, the retirement of consumer installment debt, the reduction of mortgage debt and the accumulation of liquid savings throughout the war period, at a rate in excess of $10 billion a year, will establish for the post-war period a consumer purchasing power situation without precedent in our history. Thus the financial foundation for an extended period of high economic activity after the war is being built, while depreciation and obsolescence of durable goods and equipment will strengthen the physical foundation.

Prospects for the banks as surviving business enterprises are good. But prospects for bank stockholders and market prices of their banks stocks are what might be called subdued. That is, only "fair to middling." There is a big turnover in personnel. Operating costs are moderately higher, taxes sharply higher. Earnings thus far this year tend to be moderately lower than a year ago, but in excess of conservative current dividends. If earnings increase, the tendency of the average bank will be to hang on to them and boost capital funds, rather than to increase dividends.

How about high grade bond prices and trends?

Well, the cheap money policy is more firmly within the grip of the Government than ever before. Those who long have been predicting a 3 to 5 point decline in long term high grade bonds are still predicting it—and still wrong. Maybe it will come some day—but it is not currently in prospect.

**BUY WAR BONDS!**

(*Continued from page* 585)

operative occupying central cities have fared best. Chain stores, with many outlets, have closed down the least profitable and are operating the rest with reduced personnel.

Transfer of personnel to the armed services and to war work has been a major difficulty for the distributive trades in England. According to a study by the National Industrial Conference Board, it is expected that by the end of this year as many as 63 per cent of the male and 37 per cent of the female employees of non-food retail stores in England will have shifted to more essential occupations.

Quite aside from the matter of supply of goods, our increasing war effort will in time involve a major personnel problem for all our distributive trades. As our armed forces approach 10,000,000 men and our war-plant forces approach 20,000,000 people late next year, most distributors are going to find it very hard to maintain adequate sales and clerical forces; and all will be up against higher personnel costs.

But some of the operating innovations and economies forced by the war effort no doubt will tend to become permanent. Some of our trade habits—such as daily deliveries, unrestricted returns and over-generous credit terms—have been wasteful.

For many types of goods, retail distribution cost accounts for as 50 per cent of total cost to the consumer; and for the aggregate of consumer goods the total distribution cost, including transportation, amounts to about 59 cents out of the dollar, according to a study by the Twentieth Century Fund. These figures, however, are at substantial variance with estimates of the Department of Commerce. For the year 1939, it put the share of distributors at 38.6 cents of the consumers' dollar against 61.4 cents for producers, the rest going for transportation. Illustrating how slowly the over-all pattern of distribution changes in peace time, the producers' and distributors' shares of the 1939 consumers' dollar were indentical, to the decimal point, with those of the year 1929.

But there have been some significant, selective changes. Distributors' share of the consumers' dollar spent for semi-durable goods increased moderately between 1929 and 1939; decreased rather sharply in the case of durable goods; and held notably steady as regards perishable goods. In semi-durables, distributors' share increased from 37.3 cents in 1929 to 40.6 cents in 1939; in durable goods it decreased from 45.7 cents in 1929 to 42.3 cents in 1939. Over the period there was no significant increase in transportation costs.

In both semi-durable goods and durable goods, the margin of wholesalers has tended to decrease more than that of retailers. In semi-durables, it decreased from 3.7 cents on the dollar in 1929 to 3.2 cents in 1939, while share of retailers increased from 32.3 cents to 35.3 cents. In durable goods, it fell from 10 cents in 1929 to 7.9 cents in 1939, while share of retailers declined only from 32.7 cents to 31.1 cents. These are, of course, generalized figures, concealing sharp variations as between different types of individual products. For instance, wholesale gross margin on passenger automobiles fell from 18 per cent in 1929 to 12.8 per cent in 1939, while retail gross margin fell from 25.4 per cent to 16.9 per cent—the manufacturers getting the best of it. In contrast, wholesale and retail gross margins on household furniture over that period increased by 6.1 cents on the dollar and 5.3 cents respectively—the manufacturers getting the worst of it. In household electrical appliances, wholesale gross margin increased slightly, while retail gross margin declined 3.9 cents on the consumers' dollar.

In theory, the "middle man" represents a certain amount of economic waste. In practice, varying with the particular trade, he performs an essential and very useful function for the manufacturer and consumer. Yet as a general observation, it is undeniable that high distribution costs, by absorbing so large a part of the consumers' spending power, tend to limit maximum production and consumption; and it is also undeniable that, with few exceptions, there has been no long term increase in the efficiency of distribution at all comparable to the increased efficiency of production. For instance, in the forty years ended with 1930 our production of goods increased about 9-fold, with an increase of less than 3-fold in total number of production workers. But over the same period the number of workers needed for distribution increased about 8¾ times or almost as much as did production of goods.

The modern chain store systems which, with the exception of food chains, have had their greatest development since the early 1920's, represented a big step forward in efficient retail distribution. More revolutionary, however, has been the development in recent years of the "super-markets." In this, certain independent merchants, rather than the big chains, did the pioneering, with some of the chains following along. The economic significance of the self-service, come-and-get-it super-market—there are some 9,000 of them now in operation—is a huge reduction in gross retailing margin and a consequent saving for the consumer. Formerly, typical small grocers operated at a gross margin of, roughly, 25 to 35 per cent. Efficient chains cut it to 18 to 20 per cent. Many super-markets can operate profitably on a difference of 12 cents on the dollar between cost of goods and dollar sales. In exceptional cases of maximum efficiency and big volume, gross margin has been cut down to 6 to 8 cents on the consumer's dollar.

The potential of the come-and-get-it super-market probably extends far beyond foods. Many such outlets are already handling a diverse line of household goods and supplies, including hardware. What the limits might be, it is hard to foresee. But if such merchandising is most efficient for foods, why not for clothing and many other things? In any event, pressures of war will speed innovation in distribution just as they are doing in manufacture. More economical distribution is one promising key to a better way of life in the post-war world.

## Selected Utilities for Income Investors

(*Continued from page* 607)

recently become available for most of the large companies, are of course not reliable as an index of current earnings, since at best only half of the period has been adjusted to the proposed new tax rates. As a rule-of-thumb device the decline in earnings for this period, as compared with the calendar year 1941 figure, can be doubled to arrive at an estimate for the calendar year 1942.

Recently the Senate committee has tentatively adopted some changes in the technical rules with regard to the taxing of holding company subsidiaries which have been deemed favorable, and have resulted in price rises in certain holding company securities. These changes relate to the possibility of consolidating the earnings of both good and bad companies, thus reducing the taxes for the good companies. The proposal to limit total taxes to 80% of available net income, which is favorable to many industrial "war" companies, does not affect the utilities, since few, if any, have to pay out such a large proportion of their earnings.

Why have utility companies not benefited more from the huge increase in industrial activity resulting from the war effort? The answer is that a substantial part of their profits is obtained from residential customers, where the cost of distribution is heavy and rates are much higher than for industrial current. Since almost the entire wartime increase in electric output has been sold for industrial purposes at low rates, the increase in gross revenues and net revenues has not been proportionate to the gain in kilowatt output. However, this very fact will make for greater stability of earnings during any post-war readjustment period, when industrial activity may be greatly curtailed. Hence investors in utility stocks need not fear the end of the war—in fact the prospective decrease in the tax burden might well give utilities the right to participate in any "peace market" which may develop in the next year or so.

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## The Finance Companies Enter New Fields

(*Continued from page* 597)

$300, while the company also conducts a small acceptance business through purchases of retail instalment paper. After increased income and capital stock tax, Beneficial Industrial Loan reported net income of 91 cents per share of common for the first half of 1942, compared with $1.10 per share in the similar 1941 months. Profits of Household Finance Corp., which operates 305 offices in the United States and Canada, amounted to $2.74 per common share, as against $3.07 per share, for the 1942 and 1941 half-year periods.

Ranking third among the personal finance companies is American Investment Co. of Illinois, with more than 100 offices located in about 75 cities. Income account for the six months ended June 30, 1942, shows net profits equal, after preferred dividends, to 40 cents per share of common, compared with 55 cents per share in the corresponding months of 1941.

Pacific Finance Corp. of California, with 32 offices in the Far West, deals not only in direct small loans to individuals, but also in automobile instalment paper and commercial acceptances. Earnings of this concern receded from $1.06 to 64 cents per share of common in the half-year periods ended June 30, 1941, and 1942, respectively. Notes payable, which amounted to $32,000,000 at the end of 1941, fell off to slightly under $28,000,000 on June 30, 1942. Automobile paper declined from $39,000,000 to $34,500,000. On the other hand, loans to individuals advanced from $3,134,000 to $3,434,000 between Dec. 31, 1941, and June 30, 1942.

One of the outstanding characteristics of the leading organizations engaged in various divisions of instalment financing is the long record of continuous dividends on common stocks exhibited by them. Associates Investment Co. has paid something on the common each year since 1922; Pacific Finance since 1920; Commercial Investment Trust since 1924; Beneficial Industrial Loan since 1929; American Investment Co. since 1931; Household Finance since 1929—while disbursements on the common have been paid without interruption by Commercial Credit Co. since 1933.

Inasmuch as lower earnings are indicated for the financing concerns over the immediate future, it is probable that moderate contraction in dividend payments may follow. However, in view of the essentially "liquid" nature of this business, it appears unlikely that the aforementioned excellent record of disbursements will be broken during 1942.

Earnings outlook over the longer term war period, particularly in the case of the companies hitherto principally dependent on the automotive market, will be influenced in large measure by the degree of success attained in developing new sources of revenue. The two larger factors in this field, Commercial Credit and Commercial Investment Trust, have taken definite action in this direction, and it is probable that their example will be followed by rival organizations. Modernization, commodity, and defense contract loans, as well as purchase of accounts receivable, offer added sources of revenue to these concerns, but it must be remembered that competition from banks and other financial organizations is constantly encountered, as a result of which profit margins will be affected.

As indicated earlier in this survey, volume of the small loan companies should be well-maintained in future months, although competition from banks, particularly in the case of responsible borrowers who can qualify for lower interest rates, will have some bearing on future revenues.

Following the conclusion of hostilities, there will eventuate a tremendous demand for consumers' goods of every description, payment for which will involve substantial borrowing. This will exercise a salutary effect upon the course of revenues of these companies, but higher taxes will, in the majority of cases, prevent corresponding advances in net profits. In the market's decline last spring, Commercial Investment Trust and Commercial Credit stock held at or above the lows of 1941 and have since had a sizable recovery. The lows probably have been seen for the duration and investors quite rightly put a good current value on the post-war potentials for these stocks. Prospect of further near-term appreciation is a different matter, and not very bright, in the writer's opinion.

## Answers to Inquiries

(*Continued from page* 608)

is to 1. We should certainly hold the stock at current low levels. Whether to add to your holdings or not would depend in large part upon what proportion of your entire portfolio is represented by Crocker-Wheeler holdings.

### Niles-Bement-Pond Co.

*Frankly I cannot understand why Niles-Bement-Pond common is selling so low—current price under 10. Is there anything fundamentally wrong with the company or is it just temporarily undervalued? Earnings last year were $3.56 a share and I understand sales were up 30 per cent in the first quarter. Have sufficient reserves been set up to meet the new heavier taxes and post-war contingencies? Are costs excessive? I hold 400 of the present shares at a cost of 14 and am wondering whether to buy more?—R. J. K., Trenton, N J.*

We are inclined to agree with the writer of the above letter that this well managed company's common stock is temporarily undervalued. After the four-for-one splitup last year the company paid one dividend of 50 cents on the new stock which possibly led holders to hope for a regular 50-cent quarterly rate. During the present year the company has paid three quarterly dividends of 25 cents which may have been a disappointment to some of the stockholders. A further cause for selling may be found in the fact that the company paid excess profits taxes in 1941 of $5,037,268 as compared with $673,280 in 1940. The amount paid in 1941 was about 55 per cent of the total income after depreciation and other charges. Some investors may have figured that with a 90 per cent rate in effect there would be little left over for the stockholder. However, we consider such calculations erroneous particularly in view of the fact that Congress has set up an 80 per cent over-all ceiling on taxes. The company has published no interim statements. However, we understand that in spite of the rapid rate of shipments unfilled orders now on hand are over $25,000,000 with war orders coming in from aircraft and armament industries. The financial position of the company is excellent as there is nothing ahead of the common stock except a small issue out-

standing at 1941 year end of notes payable amounting to $1,115,000 as compared with cash of $4,663,969. Working capital ratio was 1.6 to 1. It appears to us that the present quarterly dividend of 25 cents is quite safe and that there is a possibility of an extra dividend at the year end. We believe that the stock should be held at current low levels and that additional commitments might well be made on any recession.

### Tide Water Associated Oil Co.

*About three years ago I purchased 200 shares of Tide Water Associated Oil common at 14. Should I average, hold or switch? I note that earnings for the last quarter were down. Do you feel the present price of the stock has discounted the loss in domestic consumption? How are operations in the mid-continent and on the Pacific coast holding up? Is the company in a position to supply export needs for war purposes? What are the dividend prospects?—J. R. H., Omaha, Nebr.*

With reference to the recent drop in earnings of the Tide Water Associated Oil Co., William F. Humphrey, president, in his letter to the stockholders stated "An analysis of operating results of the first and second quarters of this year and last year indicates a decided change in trends. The earnings of the second quarter of last year showed a material improvement over the earnings of that year's first quarter, due to favorable adjustments in average prices for crude oil and products. The earnings of the second quarter of the current year, on the other hand, very clearly indicate that the petroleum industry is beginning to feel the effect of a decline in the domestic consumption of gasoline, higher transportation costs, loss of exports, and increases in insurance expense and taxes. Price adjustments granted in the Eastern marketing territories have afforded a measure of relief but have been insufficient to offset the great increase in costs. The provision for estimated Federal income taxes for the six months ended June 30, 1942, is based on a combined normal and surtax rate of 45 per cent applicable to taxable net income. No provision has been made for excess profits taxes."

There is under consideration a proposal to build a 24-inch pipe-line from East Texas to New York at a cost of about $95,000,000. The cost of transporting oil by pipe lines would be about 38 cents a barrel against a normal tanker cost of 14 cents. Operations in the Mid-continent are holding up well but California has also felt the effects of tanker diversions to some extent. The company is in a good position to supply export needs for war purposes. While we estimate that 1942 earnings will run somewhat below those of 1941 it appears to us that the 15 cent quarterly dividend is quite safe and that there is some possibility of an extra at the year-end when the tax situation has become more clarified. The financial position of the company continues strong as its funded debt is being reduced and the current ratio is as 3.3 is to 1. It appears to us that the stock has discounted adverse factors at present low levels and you might add to your present holdings if they do not represent too large a proportion of your entire portfolio.

## As I See It!

*(Continued from page 577)*

islands in order to protect Australia and to prevent the Japanese from building up a line of outer defenses in the Pacific from the Aleutians down; and to give her the time essential for the development of the empire she has already conquered in the Far East, the resources of which would enable her to continue the war indefinitely. I do not believe, as I said in a previous article, that Japan would find it to her advantage to attack Siberia now because of its strategic importance, since the unknown and the imponderables would mean the taking of grave risks at this crucial time in her affairs, when consolidation of her gains is the great essential. I do not hold with those who see in the ousting of Foreign Minister Togo additional reason for believing that Japan is ready to attack Siberia. The fact that he is married to a German woman and that his child has been educated in Germany would lead me rather to believe that he may have been pressing for a second front for Hitler—for an attack on Siberia in the hope of breaking down Russia resistance in Europe—and that the Japanese war lords thought otherwise.

It is well to remember that despite the greatest pressure at various times, the Axis powers have never worked together except when it was to their individual interest to do so —that there has been no real partnership but merely cooperation when it was mutually advantageous. And Japan evidently has other more immediate plans than attacking a Russia that will continue to be weak for some time to come if Stalingrad falls.

Only a second front in Europe could have helped Russia in the last few months. It is claimed that this failure was due to lack of preparedness—yet there may have been other reasons. Up to the last few months, unfortunately, considerable distrust has existed regarding Russia—much

of it due to Russia herself who has not permitted Allied observers at the front, nor taken them into her confidence as to her plan of campaign. This produced considerable misunderstanding and prevented closer collaboration. The Allies can therefore be excused for not having invited the Russians to the recent conference in London at which plans were formulated for our future course of action.

It is greatly to be hoped that mutual confidence will now be established and that the Allies, including Russia, will present a united front working in utmost cooperation against their common enemies who would like nothing better than to continue to take on one at a time. One thing that should stand greatly to the credit of the United Nations is the fact that both England and the United States, despite Russia's unwillingness to keep them informed, have continued to supply Russia to the utmost with planes, tanks, munitions, etc., indicating the greatest good will and tolerance of the Russian viewpoint. It will stand everlastingly to the credit of the Allies that these supplies were forthcoming—despite the greatest handicaps—moved by our admiration and appreciation of the Russian effort. And we must find ways to continue to supply the Russians for the fall of Stalingrad would be a great misfortune unless we can help Russia to continue to remain a serious threat to Nazi power.

We know, too, that the opening of another front is necessary if we are to prevent Hitler from taking a second breath. Just as we have been preparing ourselves we must take it for granted that Germany, too, has been preparing for a long time to meet the contingency of an offensive on the Western front. Certainly her experience in Rusisa last winter must have brought the realization that any unexpected Russian strength this year might produce conditions that were even more unfavorable—and that this time the Allies might be prepared to take advantage of them. We know that the Nazis have built vast fortifications along the Coast, have reinforced the Maginot line and extended it through into Belgium with fortifications in depth reaching all the way back to her own Siegfried line, so that invasion forces would have colossal obstacles to overcome before they could invade Germany.

Yet, ways have always been found to overcome so-called impregnabilities. And it may prove to be so again because the new strategy which involved new uses for equipment by the Allies may have a tendency to outmode and render obsolete German preparations that were based on plans contemplating a different type of warfare. This was true of the German campaign in France.

The Dieppe invasion—much more than a Commando raid—called for larger forces in order to cope with the known Nazi concentration, and for the purpose of testing out both new weapons and strategy. What the Allies have learned will undoubtedly be turned to good account. Thus far the results have merely been an increasing tempo in daylight raids to destroy German productive capacity and transportation facilities from the English Channel to the Russian frontier.

As a result of active combat in the field, many changes have taken place in both strategy and the weapons of war. Today, despite the intense mechanization, the armies are again resorting to cavalry and the training of men in the most primitive types of warfare. No stone is being left unturned to prepare for the worst contingency—for industrial destruction to such a point where vast numbers of men would come to grips with the most primitive weapons of attack. Already on the Russian front in some sectors fighting is on this basis.

It seems Hitler's war which started out to be psychological, under the threat of a titanic war machine, may develop into a war of attrition and hand-to-hand fighting which will deplete the manpower of Europe most dangerously. Because time is against them the Nazis are paying heavily in men and material for every village they take, with the fighting so intense that we can only wonder how much longer it can continue at this pace. This is typical of German psychology—final collapse always coming with amazing suddenness. This was true in the last war, and in Russia last winter when they unexpectedly withdrew although Moscow seemed about to fall. And we can only hope it will be so this time at Stalingrad.

That unexpected obstacles have arisen is quite evident for both the Japanese and the Germans have recently been exhorting their people for a fight to the finish. How great their weakness is we do not know, yet the louder the cry and the greater the intensity, the more certain we can be that morale needs bolstering. Men have a way of protesting the loudest when inwardly they are weakest.

Our ability to fight this war has greatly improved. The United States, starting from scratch and under the great handicap of Japanese treachery in Hawaii, has made considerable progress. Among the important accomplishments is our lease-lend program which has thwarted German ambitions to invade and conquer the British Isles, our great base for a European offensive. We have built up bastions in the Pacific from which we can operate against Japan. We have strengthened the British in Egypt and the Near East. We have set up bulwarks in South America through our policy in Brazil. And all this while great numbers in this country still are amazingly unaware of the critical nature of the struggle.

Too, a definite plan of campaign is shaping up at last. While the production and quality of our planes has enabled us to develop a war strategy that the Axis powers will have to follow.

Moreover, we are rapidly overcoming the menace of the seas. Our cargo planes are already delivering men and supplies to all the corners of the earth. Urgency and common sense are gradually eliminating the stumbling blocks of special privilege, and substituting strong men in key positions for weak men on the defensive whose incompetence has held up important programs. The people, too, are awake and recognize political maneuvers for what they are. We are realizing that the efforts of free men encouraged to use their initiative—accustomed to adventure in progress—can win over the robots of Hitler and Hirohito.

Yet, we have a long way to go if we win this war. To do so each and every one of us must shoulder his full share instead of trying to "let George do it."

For unless we go all out, we face catastrophe beyond our wildest imagination.

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